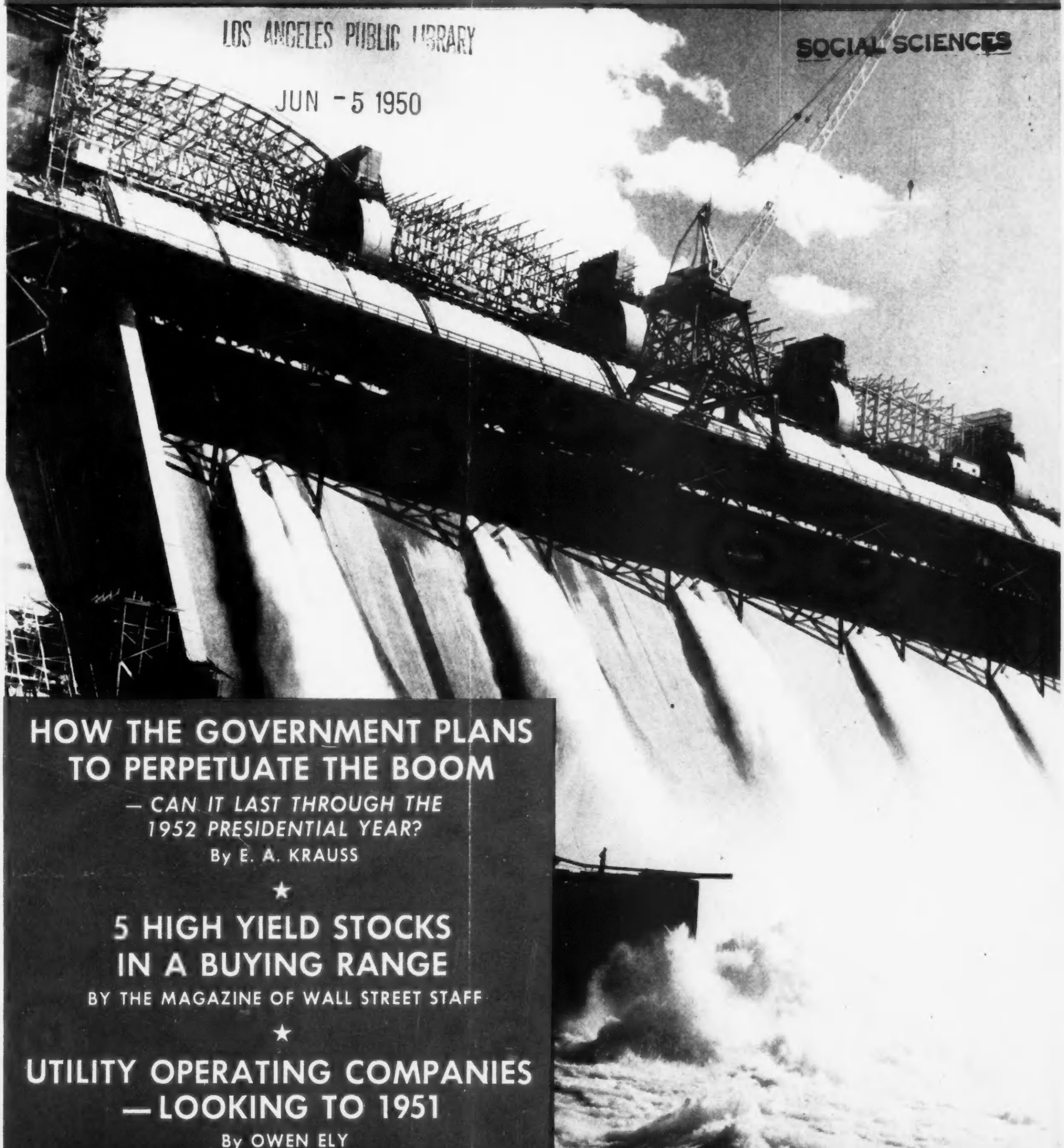
The MAGAZINE of WALL STREET

and BUSINESS ANALYST

JUNE 3, 1950

Soc

75 CENTS



HOW THE GOVERNMENT PLANS TO PERPETUATE THE BOOM

— CAN IT LAST THROUGH THE 1952 PRESIDENTIAL YEAR?

By E. A. KRAUSS

★

5 HIGH YIELD STOCKS IN A BUYING RANGE

BY THE MAGAZINE OF WALL STREET STAFF

★

UTILITY OPERATING COMPANIES — LOOKING TO 1951

By OWEN ELY

★ WHICH STOCKS TO FOLLOW BLUE CHIPS!

THE MAGAZINE OF WALL STREET and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Vol. 86, No. 5 June 3, 1950

The Ticker Publishing Company is affiliated by common ownership with the Investment Management Service and with no other organization. It publishes The Magazine of Wall Street and Business Analyst, issued bi-weekly, and The Investment and Business Forecast, issued weekly. Neither the Ticker Publishing Company nor any affiliated service or publication has anything for sale but information and advice. No securities or funds are handled under any circumstances for any client or subscriber.

CONTENTS

Chart Credit (pages 260, 61, 62, 65)
F. W. Stephens Co., 15 *William St., N. Y. C.*
Cover Photo by Kaiser Services

SUBSCRIPTION PRICE—$15.00 a year in advance in the United States and its possessions and Pan-America. Canadian and Foreign Postage, $1.00 additional per year. Please send International Money Order or United States Currency.

TO CHANGE ADDRESS—Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to your new address.

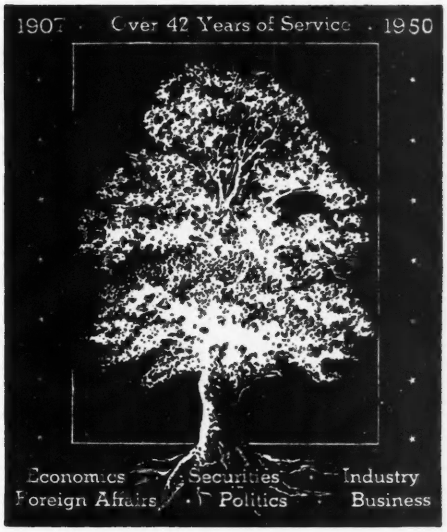
West Coast REPRESENTATIVE, A. M. Rothenberg Associates, 2412 W. Seventh Street, Los Angeles 5, Calif.

EUROPEAN REPRESENTATIVES — International News Co., Ltd., Breams Bldg., London, B. C. 4 England.

Cable Address — Tickerpub

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Editor-Publisher* E. A. Krauss, *Managing Editor* Arthur G. Gaines, *Associate Editor*



The Trend of Events

THE GENERAL MOTORS SETTLEMENT . . . The new five-year General Motors-U.A.W. contract must be viewed foremost as an expression of confidence in the future on the part of the GM management, and as such it understandably has considerable effect on business sentiment generally. The contract's duration, the generosity of its wage provisions, the implicit concern for social benefits, are all indications of the management's belief that a high level of prosperity and production will be maintained. On the other hand, labor's conviction that no drastic setbacks are in sight is suggested by its willingness again to tie wages to the cost of living. If the agreement really is honored and the union can keep its members from striking when the cost-of-living index should force a wage cut, then one can truly say that something new and encouraging has been introduced into labor-management relations.

Beyond that, the settlement is an indication of the tendency for large organizations to accomplish large purposes. In a way, it furnishes a curious twist to the idea of bigness. Only a big company could take the risks involved in such a long range agreement. One might conclude that bigness necessarily must become something of a virtue in the eyes of union leaders, for only in dealing with bigness can they achieve their biggest gains.

This very fact suggests the thought that the real test of Mr. Reuther's statesmanship will come when goals for subsequent negotiations in the automobile industry will be set. He must recognize that GM's position is special and unique; any attempt to give general application to the GM contract terms could have dangerously unsettling consequences. To try to make it a new "pattern" for the industry would indeed be a fateful mistake.

Any attempt to straitjacket the whole industry into similar concessions, regardless of whether or not individual companies can afford it, would merely be the beginning of new grief, vitiating completely the hope for greater stability in labor relations now so widely expressed. One must conclude that the position of other companies in the automobile and related industries, which cannot afford concessions of a similar scope, is by no means made easier by the GM settlement. The latter has no doubt been facilitated by the preceding Chrysler and Ford contests. In the Chrysler dispute, the union was clearly licked, and this must have contributed to the relative ease with which the GM contract was negotiated. Let's hope that its contribution to stability is not blighted by miscalculation and greed elsewhere.

A GOOD IDEA? . . . The House Ways and Means Committee, in seeking additional revenue to offset a $1 billion cut in excise taxes, has hit upon a plan for withholding a 10% tax on dividend disbursements. The 10% would be collected directly from the corporations; they would mail a receipt to each stockholder with every curtailed dividend payment. Such receipts the stockholder must save throughout the year and mail them in with his March 15 income tax

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable supplement to Mr. A. T. Miller's stock market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's market, don't miss it!

Business, Financial *and* Investment Counselors : : 1907—*"Over Forty-two Years of Service"*—1950

return to get proper consideration for the deductions thus made.

Is it a good idea? We doubt it. First of all, it would mean new complications, new forms to fill out for the companies, new trouble for the tax payer, even more bookkeeping for the Internal Revenue Department. Equally important, it will involve hardship for the stockholder of small income whose dividends will be cut whether or not he owes taxes upon them, and whether or not he depends on them for his daily needs. He must wait until March 15 next for a refund.

Sponsors of the scheme claim that some $150 million will be gained thereby in new taxes. They point out that there must be many evasions by small stockholders since the amount paid out in corporate dividends fails to show up on income tax statements. But this proves nothing. A goodly amount of the "lost" revenue can be accounted for by tax-exempt dividends paid to charitable, educational and religious institutions; and there must be many small stockholders who have insufficient income to require a tax.

Actually the idea is aimed principally at small stockholders, for corporations report all dividends of over $100 for cross-checks with individual tax returns. In the circumstances, the potential gain from the withholding tax may well be greatly overestimated. Withholding the tax on dividends — and a double tax it is to boot that should long have been eliminated—is at best an expedient of uncertain value that lacks justification. The tax-paying citizen is bedeviled enough and so are the corporations. Why should the latter be forced to collect taxes for the Government—do the job which the Internal Revenue Bureau is supposed to do?

CAPITAL GAINS TAX . . . To hope for the repeal of the capital gains tax, in a period of deficit financing, is well nigh useless—even more so perhaps in the environment of economic thinking currently prevailing in Washington. Therefore, the announcement that the House Ways and Means Committee has voted to reduce the effective rate of the capital gains tax from 25% to 16%, and to cut from six months to three months the holding period entitling a gain to be treated at the more lenient long term rate must necessarily be viewed as official recognition of the evil effects which the capital gains tax is having on the economy, and of its unsoundness as a tax measure as such. This is at least some progress, however belated. It's time that the fallaciousness of the capital gains tax be fully recognized, and the tax either done away with or radically revised.

Probably no other tax measure impedes the flow of risk capital into business ventures to the same extent as the capital gains tax. As far as the Government is concerned, it's "Heads—I Win, Tails—You Lose." While under the law, gains realized from the disposition of capital assets are automatically considered as evidence of ability to pay, losses thus sustained are by no means regarded as evidence of inability to pay. For when a tax payer has net capital losses equal to his ordinary income and is permitted to deduct in the taxable year only $1,000 of such losses, this is a one-sided and inequitable scheme of taxation, to say the very least. Of necessity, all taxes operate more or less arbitrarily. Income taxes are generally predicated on the principle of ability to pay. A glaring exception to the rule is the capital gains tax.

The Treasury has claimed that the proposed revision would cost the Government over $175 million a year. That's a cheap price to get rid of something which probably has cost the nation billions in economic retardation, and the Treasury a corresponding amount of lost revenue. In our estimation, the $175 million will be quickly made up, and probably more than made up, by the advantages accruing from liberalization of this inequitable and senseless tax. There is every reason to assume that the proposed changes—if enacted—will stimulate business activity so that tax revenue will actually be boosted in considerable degree.

TAXES AND SAVINGS . . . Contrary to the pattern that normally prevailed in the past, the American people as a whole have been paying far more in personal income taxes alone in the postwar years, from 1946 to-date, than they have been putting aside in savings in the period for their own future security and that of their dependents.

The Government's own figures bear this out, providing further significant insight into the personal as well as economic impact of the great growth in the cost of Government since prewar; and Federal income taxes, as we well know, represent only part of the people's tax bill.

Last year, for example, the people paid the Federal Government a total of $18.1 billion in income taxes, according to Treasury figures. Department of Commerce statistics show that aggregate personal savings for the year amounted to $11.8 billion. In other words, the people's combined savings in 1949 represented only 65 cents for every dollar paid in Federal income taxes.

For the four postwar years together, Federal income taxes paid by the people as a whole added up to a total of $77.1 billion; overall personal savings aggregated $39.2 billion. Thus combined savings since 1946 have come to barely more than half the aggregate Federal income tax payments in the period, in marked contrast with prewar experience when in most years, people saved two to three times as much as they paid in Federal income taxes each year.

The dominant reason for the reversal is of course the enormous rise in the cost of Government, and hence the tax burden to support it. It does *not* lie in abnormally high consumer spending, for the ratio of spending to incomes has little changed. And though the dollar amount of savings would seem to compare highly favorably with prewar figures, it actually does not. It is merely inflation-swollen.

All of which furnishes food for thought. It explains the urge and drive for individual security that is so manifest today, in terms of private and public pension demands, in terms of greater individual dependence on the state in almost every way. Seeing that their security hopes can no longer be fully realized, if at all, by their own efforts—in the past the traditional way in this country—the people increasingly turn to the Government for the security which the very same Government makes it impossible for them to acquire on their own initiative and responsibility. It's as simple as that.

As I See It!

BY ROBERT GUISE

TRYGVE LIE ADVOCATING DANGEROUS APPEASEMENT

Trygve Lie went to Moscow with the avowed intention of trying to heal the split in the United Nations created by Russia's walk-out in protest against the membership's refusal to seat the Red Chinese delegate. He thought that some acceptable formula for ending the paralysis of the U. N. might be achieved, preventing that body from disintegrating.

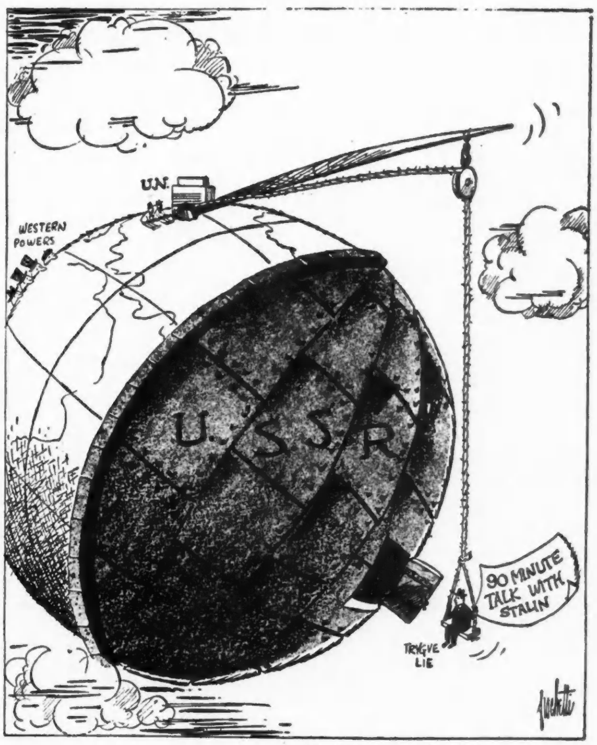
Mr. Lie has now come back but as widely expected, the formula he brought, and is now busily trying to sell, all too plainly bears the Kremlin stamp: Stalin will quit his boycott if Red China gets a seat on the Security Council. Thus Mr. Lie finds himself peddling the old appeal to save the UN by appeasing Russia; once more he has become a partisan of the Soviet position, using his influence to bend others to the Soviet will.

Mr. Lie must be aware that his appeal can hardly be successful in the United States, regardless of what measure of partial response he may have found in London and Paris. He must realize that should we recognize Communist China or seat their representative in the Security Council, it will be a big forward step towards handing Russia a world empire on a silver platter — without firing a shot. For then the day will be much nearer, and eventually inevitable, when the Soviets will dominate and control the UN, gradually hemming us in on all sides with the threat of world communism. The idea is unthinkable.

Mr. Lie must be aware of this as well as anybody. Does he believe that merely saving the United Nations as it is now constituted is worth such a price? Or is he under pressure because of Russian threats to his own Government, or just overanxious to hang on to his job?

The Soviet boycott of the UN, in order to obtain the exclusion of representatives of the Chinese Nationalist Government, raises an issue transcending the question of which Chinese Government should be recognized, important as the latter is. It is the question whether a single major power—and one known for its intrigue and unreliability in international dealings, should be allowed to force its will upon the UN by staging a sitdown strike.

"STALIN SEES LIE!"



Fischetti in the N. Y. Herald Tribune

Acceptance of the Kremlin-dictated Lie formula would not only be dangerous appeasement which the free world cannot afford if it wants to remain free. It would also be an unworthy attempt to buy off the blackmailer. It certainly wouldn't reform the Russians and assure future peace and stability. Nor would it breathe new life into the UN; it would only hasten its disintegration by accentuating its impotency vis-a-vis a ruthless and determined enemy of free mankind.

The United Nations in its present form is a pretty hollow shell as we have pointed out before. This being so, it certainly isn't worth paying the moral and political price of acceding to Kremlin blackmail to preserve it. The moral price would be forbidding enough; the political price would be suicidal. It would mean not only the permanent loss of China but eventually of all of Asia not yet within the Soviet grasp. And it would mean that further worldwide spread of aggressive communism would be difficult if not impossible to stem. It would certainly hike the cost of effective resistance to unbearable levels, making it questionable whether free democratic government can continue even in our own country.

It is time for our Government to speak out in clear and unmistakable language that we will have no part of any such deal as Mr. Lie suggests. He should know that appeasement will get us nowhere, anyhow. We have tried it in the past and look at the results!

Nor need anyone worry about what Russia will do if we remain adamant, as we should. Should the Soviets choose to leave (*Please turn to page* 290)

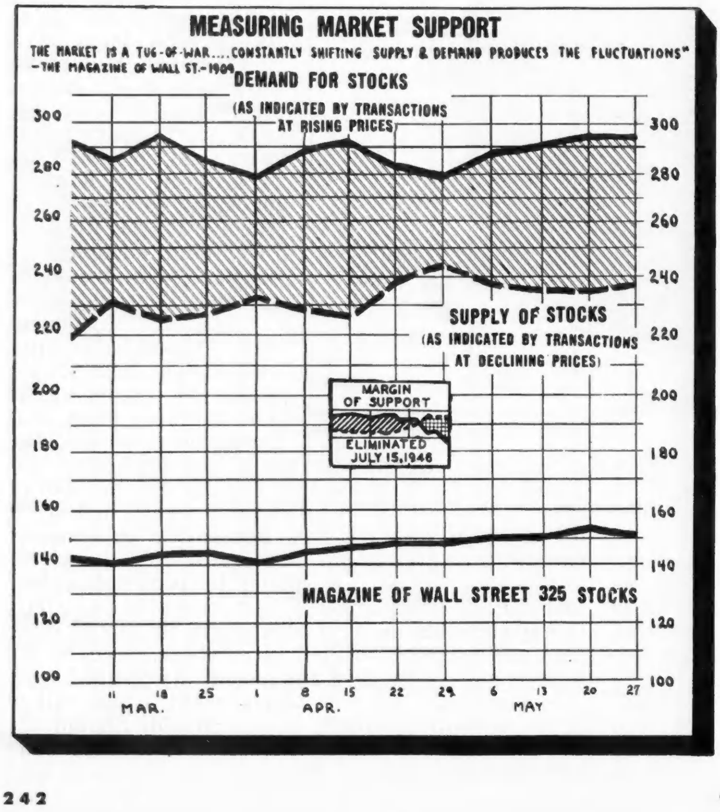
Which Stocks To Follow Blue Chips?

The market remains on an adequately sound basis, with upside leadership mainly in good quality issues so far. The economic-financial factors suggest potentiality for further rise, subject to more or less normal technical corrections. No doubt the best selections for capital gain from here on will be in carefully-appraised secondary stocks.

By A. T. MILLER

The market continues to advance in an orderly manner, with each moderate step forward followed by a pause or a small recession in prices. It has been getting technical correction on a "pay as you go" basis throughout this upswing to date, with the result that during nearly 12 months of rising prices there has been no reaction of more than nominal scope; and no pause of more than brief duration. This kind of performance is not exactly new. It was characteristic of the 1935-1937 rise; and, to a lesser extent, of the 1942-1946 bull market, which ran most of its course under war conditions.

Whether the trend is up or down, reversals are less frequent and less sharp than they used to be in unregulated markets. Of course, that does not amount to saying that intermediate reactions have been abolished. There were a couple of them in the 1935-1937 rise, and several in the 1942-1946 cycle. There could be one in the present market at almost any time, with the first week or so of it looking no different from the minor corrections heretofore seen. Indeed, it would be extraordinary for this advance, having carried for 11½ months and lifted the Dow industrial average by some 37%, to run greatly further without an intermediate reaction of perhaps 5% to 10%, extending over several weeks. To allow for that, however, is not to predict it as imminent.



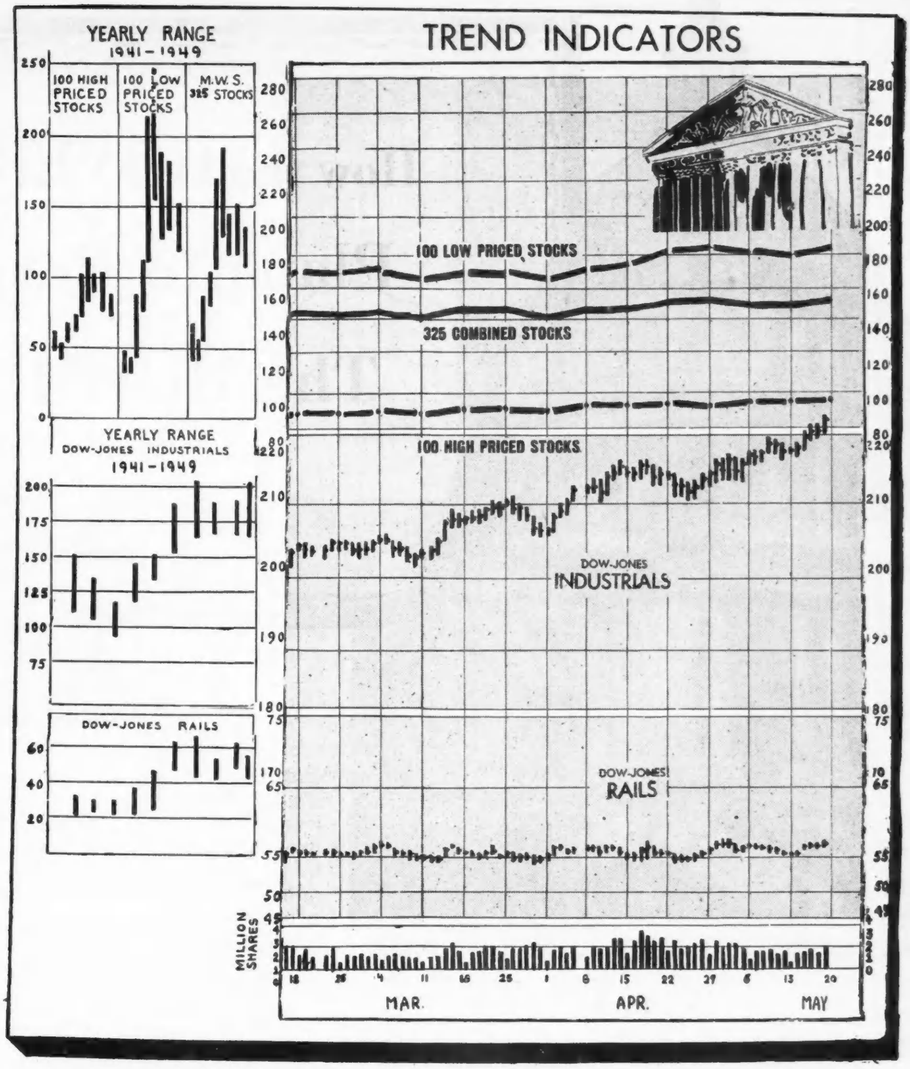
The Recent Pattern

In the week ended May 20, virtually all measures of prices recorded new highs for the present cycle. That was so of the Dow-Jones industrial, rail and utility averages. It was so of our weekly indexes of 325 stocks, of 100 high-priced stocks and of 100 low-priced stocks. As of May 20, our composite index had risen above its 1948 recovery high for the first time. There was only one thing about that performance which could raise any technical question. That is that volume on the best May price behavior was materially under that on the best price behavior of April. This might indicate some temporary satisfaction of demand; and thus portend a correction somewhat more extensive in either points or time than has been seen for some months; but the evidence cited is limited and tentative, subject to confirmation or modification by price behavior in coming days.

Within the forepart of last week, getting some brief stimulus from announcement of General Motors' unprecedented 5-year labor contract, the Dow industrial average set another new high, by the margin of a small fraction, at 222.57. However, at the close on May 27, with trading light and many people using the Memorial Day holiday to stretch out extended weekend vacations, all three of the Dow averages were down slightly on the week. Our index of 100 high-priced stocks gained a fraction, however, to a new high. The composite index and the index of 100 low-priced stocks reacted 1.9 points and 4.72 points, respectively, from the preceding week's high. It set the low-priced index back to the lowest level seen in six weeks.

This remains more of an investment

than a speculative market, although speculation certainly is not absent. The leadership is still mainly, but not exclusively, in good-quality stocks. You see that to some extent in week-to-week action. It shows up most significantly, however, in a comparison of recent highs with 1946 bull-market highs. That high for the Dow industrial average is nearly 4.8% above the 1946 top, and for the Dow utility average about 1.2%. Our index of 100 high-priced stocks — averaging below the Dow "Blue Chips" in quality — is about 16% under its 1946 high. The best level of the low-priced stock index to date was approximately 26% under its 1946 peak. The comparable figure for the Dow rail average is about 17%. For a good many months, the "advance" in the latter average has consisted of infrequent upward moves, of barely more scope than was required to top a previous recovery high. Thus, the average has bettered its March high by only some 2 points.



At present indicated dividends, yields on better-grade common stocks still average a little over 6%, compared with about 7.25% at the 1949 low. This yield is roughly 2.3 times the average yield available on high-grade corporate bonds. Probably there is no such thing as a "normal" ratio. However, it is worth noting, as the Cleveland Trust Company's May 15 monthly letter points out, that on a 50-year average the yield of all dividend-paying common stocks listed on the New York Stock Exchange has been 1.46 times the high-grade bond yield. The 10-year averages may be useful and are tabulated herewith:

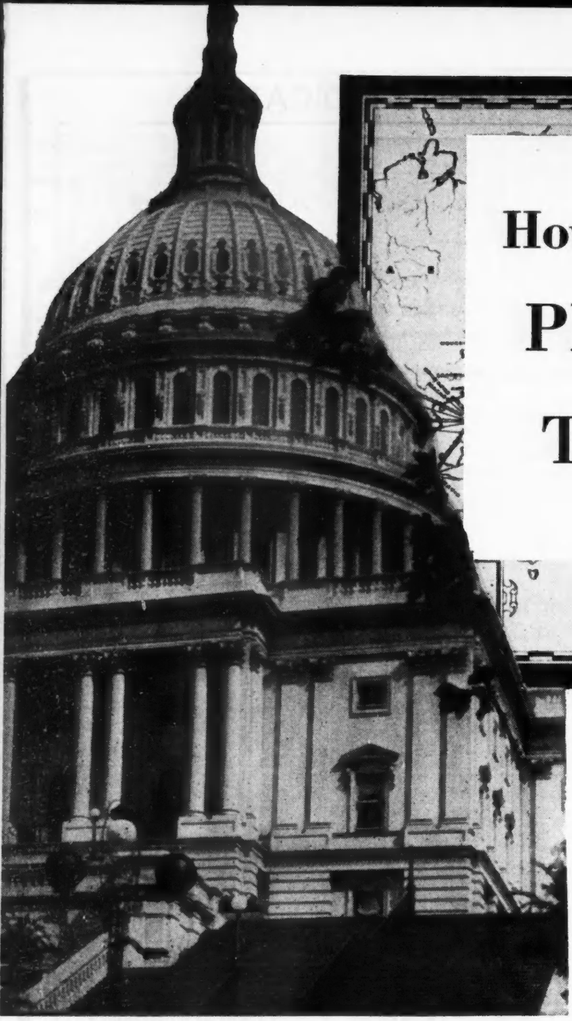
	Yields on Stocks	Yields on Bonds	Stock Yields as Multiple of Bond Yields
1900-09	4.99%	4.49%	1.11
1910-19	6.33	4.88	1.30
1920-29	6.22	5.15	1.21
1930-39	5.90	3.98	1.48
1940-49	6.04	2.73	2.21
50-year average	5.90	4.25	1.46

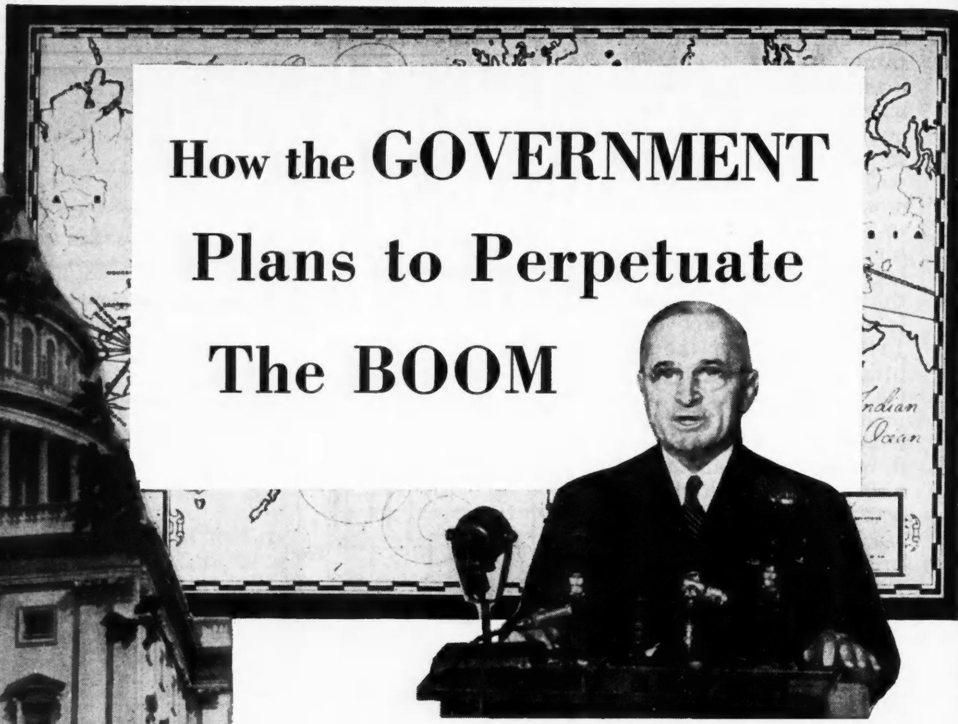
As will be seen, stock yields are not greatly above the long-term average. The biggest long-term change is the cut in bond yields, effected by New Deal-Fair Deal easy-money policy. The margin by which stock yields exceed bond yields is only moderately wider than its 1940-1949 average. However, this has been a decade of high earnings and dividends, but of low investment confidence. Investors have feared a post-war depression which, after about four years of conjecture about its timing, is still "around the corner." Investors have feared that the cold war might get hot, although all indications remain to the contrary for the foreseeable future. Without going to any extreme, there is leeway for some lifting of confidence; for more optimism not only about the 1950 business outlook but about average long-term economic activity, for this country has far outgrown its prewar "clothes."

Room for Further Rise

Without going to any extreme, there is a potential for substantial further market advance, subject to more or less normal interruptions and reactions. For example, a 5% average yield basis for equities would be far more moderate than average yields in the vicinity of 3.5% or less at all major market highs of this generation; yet it would take a further rise of about 20% in stock prices to reduce the yield as low as 5%, assuming no further rise in dividends, whereas dividends, of course, are still trending up.

Probably demand will in due course "spill over" from Blue Chip and Big (*Please turn to page* 292)





How the GOVERNMENT Plans to Perpetuate The BOOM

By E. A. KRAUSS

Despite spottiness in some lines, business as a whole is good by almost any standard and shows signs of getting even better. But how long this blissful state can endure, if left to itself, is another matter and a question on which there is no unanimity of opinion. Above all, it is a matter of concern to the Government which finds plenty of reasons why maintenance of high level economic activity is not only desirable but downright necessary.

It is necessary to prevent our budgetary situation from getting from bad to worse. It is necessary because there is no early prospect of relief from the heavy expenditures and commitments forced upon us by the cold war. It is highly desirable on general grounds, of course. It is equally desirable for purely political reasons, to pursue the Administration's domestic program and above all to create the optimum conditions for the next presidential campaign. Obviously it would not do to wage that campaign in an environment of sliding business, or downright depression and heavy unemployment. Hence the Administration's preoccupation with measures aimed at prolonging the boom well beyond 1952.

It is an aim with which, per se, no one can quarrel. Everybody likes and wants prosperity, and everybody fears depression. But opinions diverge when it comes to the choice of means to achieve the end. And the means are being revealed in increasingly sharper outline. A new style of pump priming is in the works to keep the boom going by ever broader lending programs, with the risk of business increasingly shifting to the tax payer. The magic formula consists of simply more Government lending and more public guarantee of private credit—a prescription for permanent good times based on more and more loans, in more and more fields, with the Government assuming the risk. Ultimately of course, it's yours—the tax payer's.

The idea is by no means new, but its latest proposed application to the field of small business certainly has its novel points. Otherwise the trend has been in existence for some time, becoming stronger as we went along, with the key direction toward riskless private lending and investment. Whereas the New Deal was to end the depression, the Fair Deal is to underwrite the boom.

Back in the Thirties, New Deal pump priming was mainly based on direct Government spending for public works and relief. The Fair Deal adaptation calls for pump priming through Government-guaranteed loans, with much of the actual spending to be done by private individuals and private industry. Such pump priming with private capital could assume large proportions.

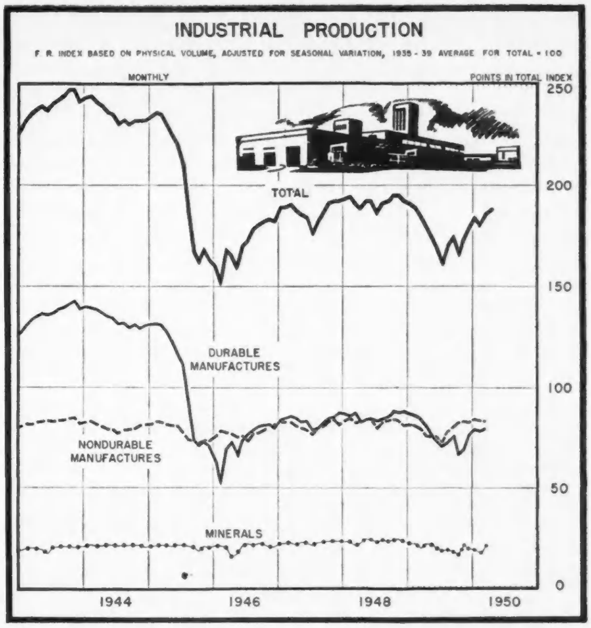
The New Formula

Already the Government has taken over much of the risk of home financing and of agricultural production; the next contemplated step is to guarantee business loans. It is a formula that doubtless has wide political appeal. Not only will it be popular with most segments of small business, but it's easier on the Federal budget since loan guarantees do not affect it until the Treasury must make good on the loans—after default. Obligations of this type thus won't show up, and lenders are protected. Only the

tax payer will hold the bag whenever loans turn sour.

The idea, in short, is to make private credit on easy terms for the borrower and at small risk to the lender, do the priming job that Federal spending did in the Thirties. Should Congress go along with it in a big way, the Government stake in the field of business credit will keep growing, and this in itself holds its own ominous implications.

The shifting of risk from private lenders to the Government (read tax payer) has already gone a long way, as previously hinted. One need only recall how the RFC has been pouring out tax payer's money for direct loans to businesses, mostly of the limping kind. To mind come names like Lustron, Kaiser-Frazer and Waltham Watch—illustrative of the bigger ventures; but there are of course thousands of smaller ones which never come to the public's attention.



Agriculture and Housing

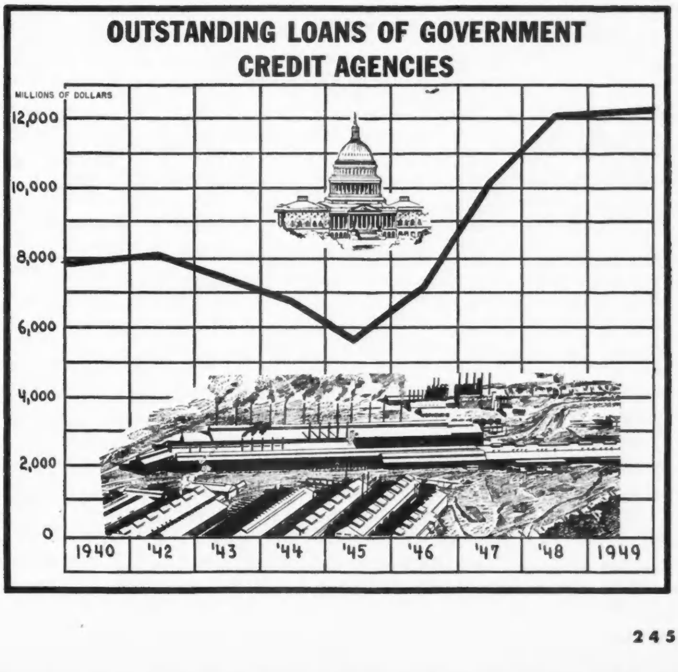
It is even more painful to recall the billions which the Government has spent to support agricultural prices at exaggerated high levels — hitting the tax payer from two sides. In doing so, it has not only taken the risk out of agriculture but underwritten agricultural prosperity indefinitely.

And when it comes to housing, we find that the Federal Housing Administration now stands behind over $10 billion of home mortgages, and has backed over a third of all written in 1949. The Veterans Administration underwrote some $4.5 billion more, and gets $150 million of direct lending authority in the new housing law. RFC's Federal National Mortgage Association stands ready to buy up insured or guaranteed home mortgages from private lenders, has bought or agreed to buy $1.8 billion worth in less than a year. On top of that, its limit has been boosted to $2.75 billion in the new housing law. In short, while buyers and builders own some $38 billion in long term mortgages, close to $15 billion are guaranteed or insured by the Government and at the present rate, the figure may easily mount by $2 to $3 billion annually. In the low priced housing field particularly, the risk is almost entirely carried by the Government.

It also carries virtually 100% of the risk entailed in foreign lending activities, in former years shouldered chiefly by private bond buyers. Foreign Governments have borrowed huge sums from the Treasury (see British loan) and from the Export-Import Bank; any resultant losses—and the loss ratio is apt to be quite high—must be borne by the tax payer. The Administration also wants Government insurance to protect American business abroad against the hazards of frozen currencies or expropriation by foreign Governments. Again this places the risk on the tax payer. Almost in every direction, the trend is towards riskless investment—except for the tax payer.

So far the result of these policies has been that whereas in 1939, Federal loans and loan insurance has amounted to about $12 billion (about three-quarters of which consisted of direct loans), the total now is close to $35 billion (roughly half in direct loans) and mounting rapidly. The tax payer in short is not only called upon to support the recognized functions of the Federal Government but increasingly also to finance business activity on a wide scale. In doing that, it is claimed, prosperity can be longer lived, more stable and less subject to sudden upsets. But clearly, it also kills all hope of lower taxes and in the last analysis is a trend that eventually may destroy free enterprise by placing private enterprise more and more under Government regulation and control—culminating in socialism. For this reason, not only Congress but the people should examine the latest phase of this program dealing with financial aid to small business—with realism and exact thought.

The President's proposals to assist in the financing of small business have a two-fold purpose: To provide equity capital and make loans to such businesses. Equity capital would be furnished not directly by the Federal Government but by authorizing the Government to "promote and charter na-



tional investment companies." Though these companies would be established and owned by private investors and institutions, the Federal Government would have the responsibility of enforcing observance of certain rules and principles.

Obviously, to secure the benefits of the Government guarantees under the suggested plan, it would be necessary for the investment companies to conform rigidly to such regulations. The plan contemplates that these investment companies would be qualified to assist small business not only in matters of financing, but in the development of new techniques in production and management, and in matters of labor relations, marketing and accounting. In other words, the sphere of Government influence in business would broaden enormously.

Risk Capital vs. Protected Capital

The underlying purpose would be to have the financial institutions attract the savings which would not ordinarily assume business risks. In view of the Government guarantee, it would not be risk capital but protected capital. Potential venture capital now hesitates because the possible reward from such investment is inadequate; taxes are too high to make it worthwhile to assume the risk of loss.

But strangely, to help launch the new program, it is suggested that the Federal Government should provide positive incentives and aids to the new investment companies. Thus, it is thought, tax provisions should recognize their special character, particularly by permitting them to build up adequate reserves. In other words, these investment companies, promoted and chartered by the Government, are promised the very incentives which the private risk taker is denied, the lack of which in fact is responsible for the dearth of private venture capital.

It's all a bit confusing, isn't it? Instead of building up new business controls, wouldn't it be far better to provide positive incentives and aids directly to business itself by adequately cutting taxes and by other appropriate measures? But no. Private risk capital, operating on its own, is denied what is advocated for the same capital pooled in Government directed investment companies. That way, of course, lies socialism!

The Five-Point Program

If, as the President avers, adequate venture capital for small business is no longer available from traditional sources, we all know why this is so: The reason is excessive taxation and otherwise shabby treatment of risk capital generally. To remedy the situation, up pops a five-point program, proposing: (1) The aforementioned Government promoted and chartered "national investment companies," privately owned, to provide equity capital and long term loans. (2) Insurance of bank loans to small business up to $25,000. (3) Broader lending power for the RFC—to enable that agency to make loans for longer than ten years and ease collateral requirements. (4) Establishment in the Department of Commerce of a clearing house to collect and distribute scientific, engineering and managerial information which will help small business to become more efficient. (5) Authority for the Secretary of Commerce to direct the programs and supervise the RFC.

The immense pump priming potential of such a program, if carried through, is obvious. Small businessmen will naturally seek all the money they can get once safeguards for the lender are kicked down, as they probably will be. But one should also remember that more people have been busted by easy credit than by any other financial expedient. That's true especially of small business. Under present conditions, the core of the trouble for small business is not in finding loans at cheap rates unavailable. The difficulty lies in making business profitable in the face of excessive taxation, heavy expenses involved in Government regulations and labor complications. This leads to doubt that risks are worth taking.

There is certainly no lack of money; banks and insurance companies are bursting with it and small business can get all the credit if it is a good credit risk. There is no necessity for Government to enter the picture by guaranteeing loans unless loans will be made to businesses which plainly are not good credit risks. The primary need of small business is however not credit, but "capital" that stays put, thus does not mean early maturities or a long and bitter period of repayment. But strange enough, most small businesses are loath to take money on a partnership basis; they prefer bank loans.

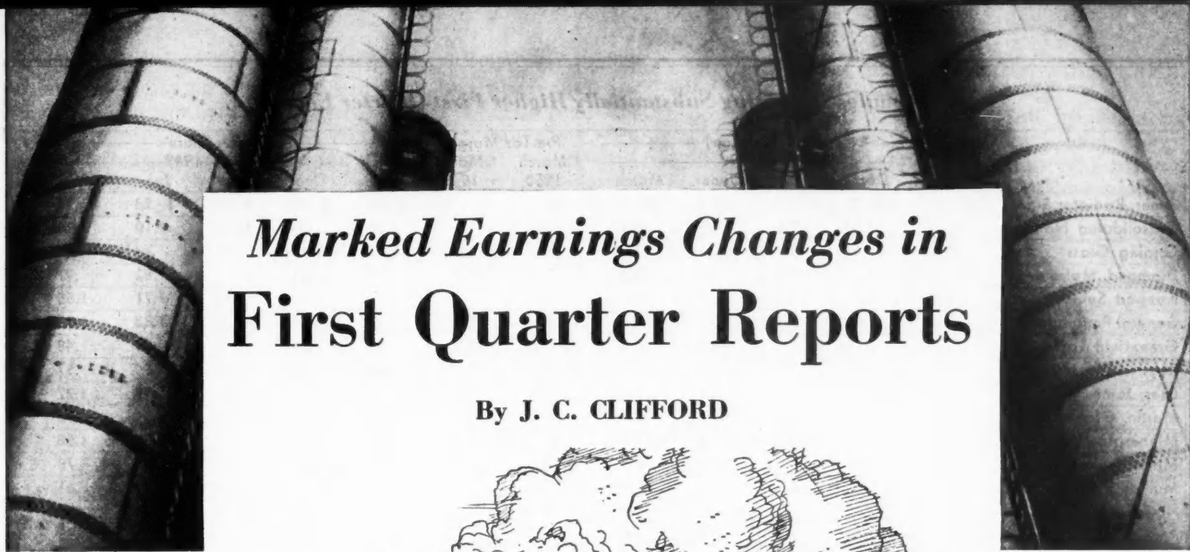
And when it comes to loans, it must be recalled that the Federal Reserve Banks have been competing for small business loans with commercial banks for years, but they have found no great demand for their services. Their record refutes the notion that the Government must take a larger hand in the field of business lending. Its hand, in the form of the RFC, is already big enough.

No Enthusiastic Reception

Just how far Congress will go along with the new program is open to question, though eventually some small business aid plan will likely be adopted. Indications are that the legislators will move slowly, and the attitude of the bankers will be a big factor. Loan insurance up to $25,000 may have the best chance, but to be effective it will require the cooperation of bankers making such insured loans. The present reaction is justly cautious not only among banks, but even some small business organizations are skeptical, sensing the dangers inherent in the program. And the latter, it is obvious, cannot get far without the support of the groups that might realize some benefit therefrom.

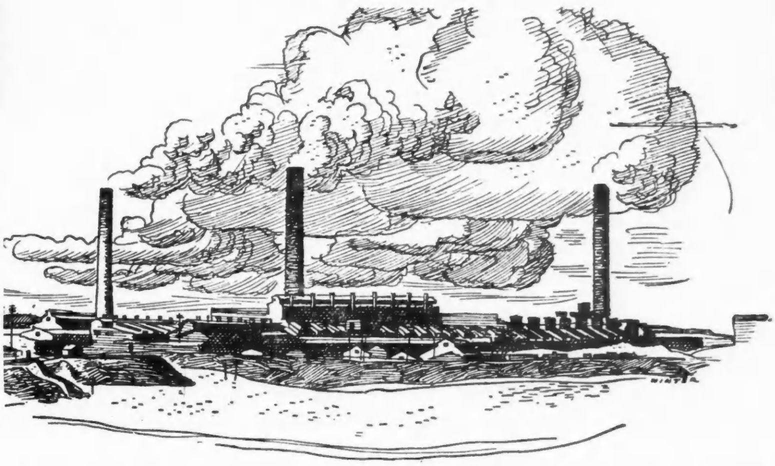
The investment companies are the real heart of the plan, but here too, the reception has been cool and this scheme will probably move much more slowly. The opposing view is largely a practical one. It wants to know whether the new investment companies would find any great volume of meritorious projects which cannot now be financed. And it wants to know exactly who will put up the money. If risk capital for small business is not directly available to it, will it be available indirectly? Above all, would not a direct attack on the problem, through tax revision to encourage saving and give more incentive for risk taking, produce more lasting results?

Apart from the many practical considerations, it must also be considered to what extent all this may lead to more inflation. If it does, it will certainly accentuate the venture capital problem, throwing more and more of the burden on the Government. For to the extent that further *(Please turn to page* 289)



Marked Earnings Changes in
First Quarter Reports

By J. C. CLIFFORD



Seldom before has it been so essential as at present to look beneath the surface in studying first quarter corporate earnings reports. This applies especially to situations where comparison with statistics a year earlier indicates above-average gains or declines in net profits. Underlying conditions pertinent to different industries or their individual components often varied so much in the first three months of 1950 from those prevailing during the forepart of last year that relative trends appearing could be misleading, whether favorable or otherwise.

On appended tables we list a number of concerns that reported substantially higher earnings compared with the first quarter of 1949, as well as others that fared much less well. In order to bring the picture more clearly into focus, as well as to show trend changes in the last three quarters of 1949, we present sales and earnings for five consecutive quarterly periods, together with pre-tax margins for the first three months of this year and last where available. Let's start by discussing a few companies in the group that reported a substantial gain in their recent quarter's profits.

In quite a broad manner our table shows that a very large proportion of the firms listed in this category rather closely followed the general industrial pattern as to a strong recovery in volume from temporarily depressed levels in the forepart of last year. While, in making comparisons of earnings, some allowance must be made for this factor, this should not necessarily detract from the vigor with which either sales or profits rose, as evidenced by above-average gains. The main thing to consider is whether a mere accumulation of deferred demand, or fundamental and more permanent factors enabled these concerns to forge ahead so well.

American Radiator & Standard Sanitary Corporation's first quarter sales of $51.2 million were about 15% higher than a year earlier, while net earnings of 46 cents per share rose 22%. Compared with volume of $60.3 million in the December quarter when earnings of 82 cents a share were reported, though, the showing was less favorable, partly attributable to seasonal influences and partly to unusually heavy shipments in the final quarter last year when dealers sought to replenish much depleted stocks. In this process, the company worked off a sizable inventory accumulation that had piled up through midyear of 1949, enabling it to start 1950 in a sound position.

The results of this company in the first quarter indicate efficient cost controls, and as indications are strong that residential building will continue very active throughout 1950, it seems probable that sales this year may at least equal those of 1949 and possibly expand, in which event somewhat higher earnings could be expected. Consistent long term growth seems assured for American Radiator & S. S. Company in line with improved living standards throughout the world. In its fifty-year history it has become strongly entrenched with the trade in the United States and Europe, as shown by total production of 20 million lavatories, 14 million bath tubs, 15 million enamel sinks and water closets and 7 million heating boilers.

Big Sales Rise

Compared with prewar experience, annual dollar sales of more than $200 million have shown a more than twofold gain, while earnings in the last three years have averaged $2.09 a share versus 70 cents in 1940. As the company late last year completed a huge new ceramics plant in New Orleans, it is well situated to maintain its established growth.

Keystone Steel & Wire Company got off to an encouraging start in 1950 by reporting all-time record

Companies Reporting Substantially Higher First Quarter Earnings

	Net Sales ($ million)					Pre-Tax Margin		Net Per Share				
	1950	1949							1949			
	March	Dec.	Sept.	June	March	March 1950	March 1949	March 1950	Dec.	Sept.	June	March
Amer. Radiator & S. S.	$51.2	$60.3	$57.0	$44.3	$44.7	...%	...%	$ .46	$ .82	$ .39	$ .23	$ .36
Consolidated Nat. Gas	42.5	27.8	17.0	25.9	36.1	...	...	2.56	.74	(d).29	1.10	2.04
Corning Glass	22.7(a)	20.6(e)	19.1(c)	16.1(b)	17.2(a)	25.5	12.6	1.22(a)	1.13(e)	.55(c)	.44(b)	.45(a)
Diamond Match	...	17.1	19.3	21.4	20.8	...	11.4	1.17	.21	.71	.52	.91
Freeport Sulphur	7.8	7.6	7.3	6.4	6.4	...	...	1.88	2.36	1.76	1.71	1.55
General Portland Cement	5.8	5.4	5.4	5.4	4.9	42.3	37.5	1.47	1.21	1.33	1.38	1.13
Greenfield Tap & Die	...	3.7(g)	...	2.0	2.4	...	8.2	.82	.63	.11	.11	.48
Keystone Steel & Wire	10.5	9.8	7.7	8.9	10.2	28.7	17.3	1.03	.98	.68	.84	.67
Lees, James, & Sons	15.9	15.0	11.5	8.8	12.6	13.0	13.5	1.48	1.32	.85	.98	1.22
Martin, Glenn L. Co.	10.5	17.9	11.1	10.7	12.2	...	...	.57	1.10	.54	.51	.35
Minnesota Min. & Mfg.	32.2	31.7	28.6	27.6	26.8	24.1	20.6	2.33	2.18	1.78	1.53	1.58
Motor Products	13.6	14.4	16.9	15.0	12.8	11.1	3.7	2.29	2.32	2.89	1.33	.78
Mullins Mfg.	11.7	9.6	9.2	7.3	7.9	17.8	15.2	1.04	.68	.62	.45	.61
National Lead	62.1	59.1	71.0	61.1	66.1	...	...	1.30	1.06	1.19	.76	.88
Rheem Mfg.	13.7	12.6	13.3	12.8	11.0	...	...	.90	.78	.65	.55	.53
Stewart Warner	15.5	14.2	12.5	13.1	14.7	9.5	5.1	.59	.67	.39	.30	.31
United Aircraft	65.0(f)	65.0	54.9	51.9	55.1	...	2.9	1.15(f)	1.21	.99	.78	.33
U. S. Gypsum	36.6	36.2	37.0	32.8	31.7	...	...	4.08	3.70	3.52	3.05	3.24
Vanadium Corp.	6.0	9.0(g)	...	3.6	4.9	...	...	1.11	(d)1.80(g)	...	(d).17	.76
Victor Chemical	8.4	8.0	8.2	6.7	6.4	...	...	1.21	1.05	1.05	.71	.58
Western Union	42.3	44.0	45.0	46.3	44.2	.9(h)	Def.	.19*	1.18*	(d).93*	(d).91*	(d)2.07*
White Motor	19.5	37.7(g)	...	20.8	18.8	...	...	.53	1.14	...	...	(d).14
York Corp.	11.5	8.1	11.8	14.8	11.9	6.1	5.9	.57	.02	(d).13	.77	.33

*—Class "A" Stock.
(a)—12 weeks ended March 26, 1950, and March 27, 1949, respectively.
(b)—12 weeks ended June 19, 1949.
(c)—16 weeks ended October 19, 1949.
(d)—Deficit.
(e)—12 weeks ended December 31, 1949.
(f)—Estimated by Company.
(g)—6 months.
(h)—Operating margin.

sales and earnings in the first quarter. This was the third period in the company's fiscal year ending June 30, and for nine months, similar peak results were achieved. In the case of this concern, it is notable that while sales of $10.5 million in the first quarter were only fractionally higher than a year earlier, pre-tax margins widened to 28.7% from 17.3%. In consequence, it is hardly a surprise that net earnings in the period rose to $1.03 per share compared with 67 cents.

Benefits from Modernization

Here we have a clear reflection of benefits derived from plant modernization and improvements carried out in recent years, as well as of policies to hold markets by wise pricing. The management reports capacity operations, and orders for the company's entire output are booked ahead as far as is deemed practical. The claim is made that Keystone is in the best competitive position in its 60-year history. On the whole it seems pretty clear that under current conditions, the earnings of this integrated and well established manufacturer of woven wire fences and locks should hold their recent gains.

Stewart-Warner Corporation reported first quarter sales of $15.5 million compared with $14.7 million in the related period of 1949, while net earnings spurted more significantly to 59 cents a share from 31%, a gain of almost 90%. The management attributes the rise in earnings to strict control of expenses and reduction in inventories. While heavy demand for television sets contributed to larger over-all volume in the first three months, improved operations in several other divisions were also an important factor. Of interest is the fact that sales in the first quarter were higher than in any quarter of the preceding year, and that unfilled orders were materially above a year earlier.

For several years past, this concern has managed to cope successfully with periodic approaches to its break-even point, as its earnings are highly sensitive to changes in volume, and the latter tends to vary considerably in this special field. While the outlook for high level sales in coming months is bright, and evidence of improved operating efficiency is presented, it might be somewhat optimistic to assume that the company's earnings are in a definite and prolonged uptrend.

Diamond Match Company has reported an increase in net income of more than 20% for the first three months of 1950 compared with the same span last year. After allowing for the maximum participating rate of $2 per share with the preferred stock, net earnings on the common showed as $1.17 as against 91 cents in the same 1949 period. Figures as to relative sales are not available, but the management stresses unusual activity in the pulp, paper and lumber divisions as mainly accountable for improved results. Sales of matches have been adversely affected by legislative indecision over adjustments in the excise taxes. In view of the prospect for prolonged demand for lumber by the building industry and for the company's paper products as well, it is reasonable to expect earnings to continue quite satisfactory.

Another concern broadly affected by conditions in the construction field is General Portland Cement Company. Net sales for the first quarter rose to $5.8 million, a gain of 18% over the like quarter in the preceding year. Net earnings responded with a rise to $1.47 from $1.13 per share. Without recourse to

outside financing, the company increased its annual cement capacity to almost 8.9 million barrels from 6.6 million in the last three years. Heavy demand for cement in building and road construction shows no sign of subsiding over the near term. Cement prices were lifted last year, and with capacity output now the rule, pre-tax margins have widened to a very high 42.3%. Because of improved operating efficiency, the company's increased rate of earnings should vary little in the foreseeable future.

James Lees and Sons

Among leading firms in carpet manufacture, James Lees and Sons reported unusually good progress in the first quarter. Sales of $15.9 million were higher by 26% and earnings of $1.48 per share by 21% than in the first three months of last year. Considering that average carpet wool prices since early 1949 have risen about 65%, it is quite remarkable that this concern has made such a good showing. As practically all of its competitors, James Lees and Sons have had to lift carpet prices four times in the last eight months and may be obliged to boost them again in coming months. New home formation, though, has continued at such a strong rate that demand for floor coverings remains at a high level, despite higher prices.

Aggressive promotional activities have enabled the company to more than hold its own in highly competitive markets, while benefits from improved manufacturing facilities have prevented margins from narrowing very much under increased expenses. In the circumstances, net earnings in the current year may come to around $5 per share compared with $4.37 in 1949, and $5.68 in the boom year of 1948.

A reported net income of $236,766 by Western Union Telegraph Company in the first quarter contrasted strongly with a loss of more than $2.5 million incurred in the first quarter of 1949. In terms of net earnings per share, this would show as a profit of 19 cents versus a loss of $2.07. In the course of a year, Western Union has managed to reduce operating costs and expenses at an annual rate of $17 million, with mechanization of many operations a substantial factor in the process. Encouraging as has been the progress towards better control of operating costs, the company's problems have been only partially solved, however.

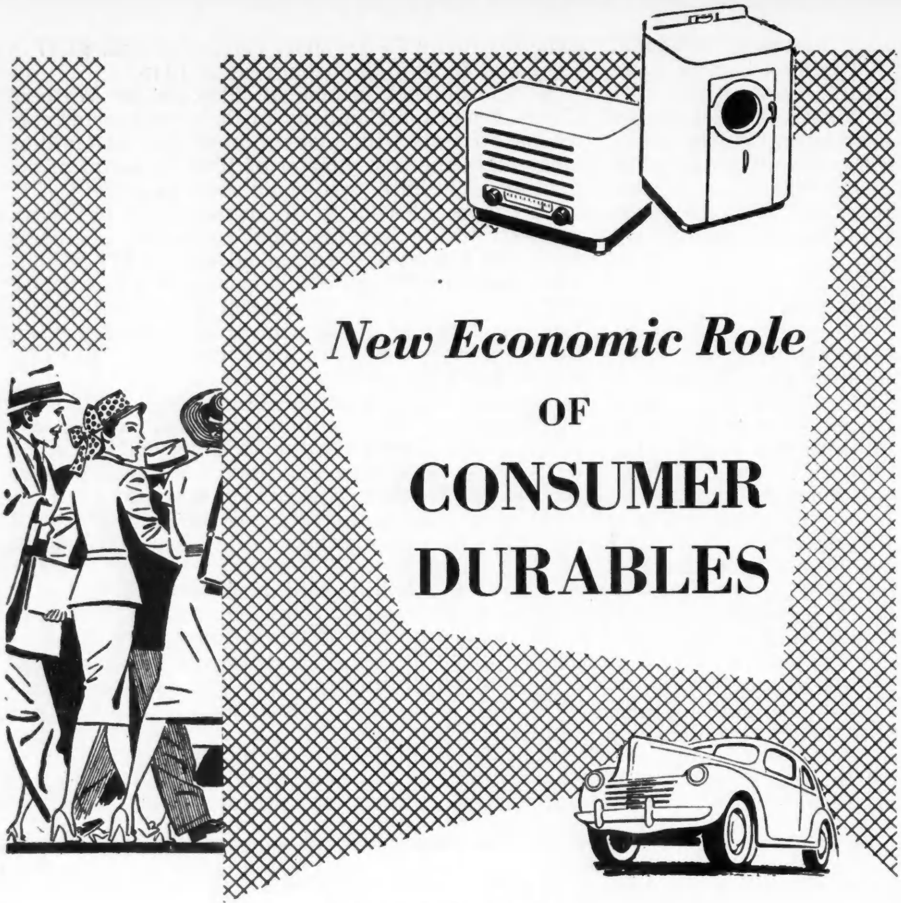
Although the Fair Labor Standards Act authorizes the Wage and Hour Administrator to exempt telegraph messengers from the 75 cents an hour minimum wage provision, no final decision has been reached as yet. More importantly, the outlook for restoration of really satisfactory earnings by this leading communications concern will hinge importantly on implementation of a national policy program which remains to be agreed upon by the Government.

Turning to those companies that in the first quarter experienced a rather marked decline in earnings, let's examine the causes therefore in the case of Joy Manufacturing Company. For the past few years, about 65% of volume has stemmed from orders from the coal mining industry, a group undergoing readjustments, climaxed by the late prolonged strike. During most of last year, as is well known, most of the bituminous mines op- (*Please turn to page* 292)

Companies Reporting Substantially Lower First Quarter Earnings

	Net Sales ($ million)					Pre-Tax Margin		Net Per Share				
	1950	1949							1949			
	March	Dec.	Sept.	June	March	March 1950	March 1949	March 1950	Dec.	Sept.	June	March
American Bank Note	$ 3.6	$ 4.5	$ 4.5	$ 4.6	$ 5.3	11.1%	20.2%	$ .26	$ .50	$ .68	$ .70	$ .85
American Colortype	3.3	7.6	5.9	4.6	3.8	.01	5.4	.07	2.58	1.08	.99	.45
American Smelt. & Ref.								.84	1.71	3.23	.48	2.80
Anaconda Copper	86.7	82.1	70.5	72.4	108.7	15.6	9.7	.91	.74	.33	.46	1.61
Bliss, E. W.	4.4	4.7	4.2	6.0	5.6	7.4	11.3	.32	(d).12	.09	.52	.59
Briggs Mfg.		74.5	106.3	87.7	69.5			(d).44	2.20	3.15	1.28	.24
Clark Equipment	14.8	10.4	12.7	13.7	16.8	6.9	12.2	1.16	.28	1.02	1.17	2.38
Columbian Carbon	10.9	10.3	9.1	8.9	10.2		36.6	.90	.82	.62	.65	1.60
Continental Oil	74.9	78.9	79.5	76.5	80.3	14.2	16.1	1.69	1.54	1.72	1.98	2.25
Douglas Aircraft	26.2(a)	29.5	35.8	26.2	25.8	9.0	12.1	1.55(a)	.60	3.63	1.62	3.34
Electric Autolite	37.4	49.5	61.0	46.4	52.3			1.09	2.67	2.50	1.39	1.47
Elliott Company	6.4	6.3	6.4	6.9	6.5			.95	.38	2.10	2.48	1.99
General American Trans.	20.8	26.2	27.3	25.2	31.1	11.0	9.4	1.17	1.45	1.43	1.16	1.58
General Telephone	16.4	16.0	15.5	14.9	14.3			.45	.45	.49	.59	.64
Hudson Bay Min. & Smelt.	9.1	9.0	9.0	8.4	10.8			1.04	1.09	1.04	.99	1.50
Joy Mfg.	9.8	9.1	7.9	12.3	14.7	9.7	13.8	.66	.51	(d).03	.76	1.46
Minneapolis Moline	17.7(b)	7.8	18.6	19.7	20.1			1.48(b)	.70(d)	2.10	1.90	1.95
Ohio Oil	43.9	43.0	40.7	40.3	43.4	24.9	29.8	1.27	1.06	1.41	1.15	1.51
Packard Motor Car	37.8	25.4	75.9	51.8	55.7	Def.	11.3	(d).02	(d).09	.29	.06	.26
Pepsi Cola	7.7	6.9	12.0	11.5	6.8	Def.	12.9	(d).02	(d).14	.16	.25	.10
Pfizer, Chas., & Co.	12.1	11.9	11.5	11.7	12.2	26.2	37.1	1.22	1.09	1.05	1.34	1.70
Phelps Dodge	47.7	47.0	40.6	44.4	61.8			1.43	2.83(c)		1.02	2.52
Richfield Oil	31.8	31.9	31.8	29.4	29.7	14.2	24.2	.89	1.27	1.29	1.29	1.26
Seaboard Oil	6.3	6.7	6.2	6.5	7.0	19.3	27.7	.90	1.47	.90	1.05	1.30
Standard Oil of Ohio	63.5(e)	63.5	66.6	62.6	62.0	6.2	8.5	.71	1.28	1.01	.94	1.03
Union Oil of California	51.9	46.7	48.4	49.4	55.8			.31	.43	.78	.94	1.54
Youngstown Sheet & Tube	79.6	47.6	87.0	93.5	106.5			4.47	1.92	4.49	5.39	7.18

(a)—Quarter ended February 28; fiscal year ends November 30.
(b)—Quarter ended April 30; fiscal year ends October 31.
(e)—Includes "other income."
(c)—6 months.
(d)—Deficit.



New Economic Role OF CONSUMER DURABLES

By WARD GATES

Consumer durable goods, the hall-mark of the American standard of living, have always played an important part in our lives and our economy. This because their possession means prosperity, and inability to buy them or replace them usually reflects depression conditions.

Their demand characteristics in the past resulted in a distinct pattern of profit trends. Earnings of these industries have always been fluctuating considerably. They have been aptly called "explosive" in boom periods because characteristically, a boom in consumer durables is far more volatile than in soft goods. Ups and downs have been steeper, more marked.

However, in appraising future prospects, it may be unwise to place too much reliance on past performance, particularly since important changes have taken place not only in the public's buying habits but in income relationships as well. It is these changes which are in no small manner responsible for the current boom in consumer durable goods.

Take autos, for instance. An estimated shortage of eight million cars at the end of the war had been met more than a year ago by heavy postwar production. Yet the auto industry continues to boom more than ever and no sharp slackening in operations appears in sight. Consumer preference for automobiles is simply astounding, hence the enormous vigor of demand.

Or take residential housing. Demand for homes is holding up far better than expected. A tapering off of the housing boom was looked for last year; instead, after some hesitation, there was a brisk revival that led to current peak activity. True, easy credit for home financing helped a great deal. But were there no substantial demand, even the heaviest credit infusion could not maintain the building boom. Actually, with more credit becoming available, the public will be able to indulge its desire for home ownership to a greater extent than ever before.

Then there is that thriving new industry — television. Potential demand is enormous and easy credit, moreover, has quickly taken this device out of the luxury class. As a result, there is no way to estimate the extent of the available market beyond saying that it will be huge.

Potentially at least, the same is true of all consumer durable goods markets, for the appeal of these goods is unquestioned. It is one reason why it is so difficult to pick the peak of the current boom. Look what happened a year ago when the bottom seemed to drop out of the electrical appliance markets. And look how vigorously they have recovered. A slackening in autos and residential building has been widely, and prematurely predicted several times. Both are going stronger than ever.

We are well aware that the heavy output of consumer durables has gone far towards sustaining the postwar boom. We also know that the boom in consumer durables has been paid for at least partly by a slow-down in non-durables. The latter was brought home particularly by the recent Federal Reserve Board announcement that the Board's industrial production index had risen only one point between March and April, despite sharp upturns in steel, autos and other durable goods industries. That can only mean a further contraction of soft goods production. The current situation thus reflects an astounding consumer preference for durables, and by the same token underscores the importance of consumer durables as a factor in the total volume of business activity.

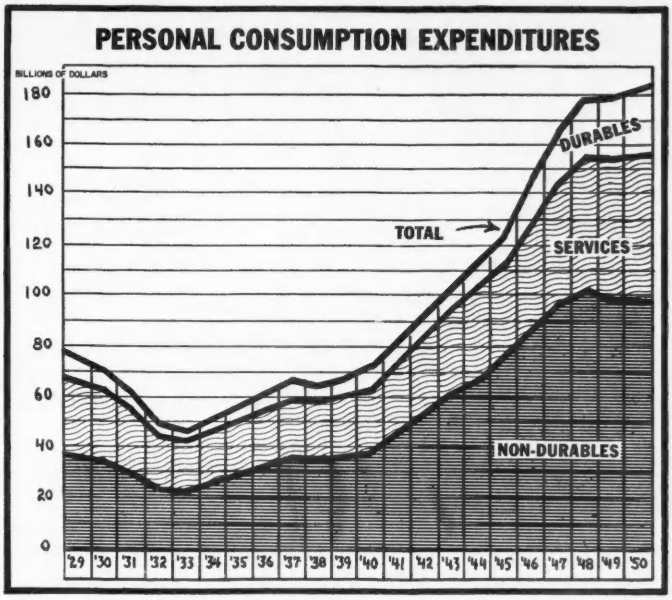
Consumer Durables and the Business Cycle

It has been the fashion in economic thought to explain the business cycle largely in terms of fluctuation in new investment, with the rise and fall in demand for capital (producers) goods the chief corner stone. Substantially, this remains true today. But with consumer durables occupying a dominant

place in our economy, a revision of ideas of its practical significance may be in order.

Today, consumer durables can minimize or intensify fluctuations in the durable goods sector in a manner probably unknown before, since demand for them has become a greater determining factor of durable goods activity as such. They play a far greater role in the overall business picture than they did a decade or two ago. In fact at times, recently, their sales volume has equaled or exceeded that of producers' goods. Thus in terms of their relative magnitude, it would appear that the fluctuations in the additions to "consumer inventories" might be quite as significant as fluctuations in industrial investment.

From the standpoint of general economic stability, the question arises: What about the future volatility of consumer durable goods activity? Will its newly enhanced significance make for greater or lesser cyclical fluctuations? The answer is not simple, since a good many imponderables enter. But in appraising the probabilities, a number of factors merit consideration.



First of all, in view of the strong consumer preference for durables which is likely to continue, in view of our larger population, high incomes and easy credit conditions, demand for consumer durables in the future should fluctuate around a higher mean than in the past. This means that even in periods of recession, a volume drop to former recession lows is highly unlikely. Higher average levels should prevail during recessive periods as well as during booms, though the gap may still be pronounced.

Traditionally, durable goods industries have always been subjected to wider fluctuations than non-durables. The products of the former, as the name implies, are longer lasting, and in lean times their purchase can usually be postponed. Hence our major depressions have been accompanied by widespread unemployment in durable goods lines. Activity and employment in soft goods lines are steadier because their output is quickly consumed, and consumers cannot wait long to replace them.

Much, then, depends on the public's ability and willingness to buy. There are persuasive indications that what will govern the future volume of outlays for consumer durables (*Please turn to page* 284)

Consumer Durable Goods Manufacturing Companies

	Net Sales 1949 —($ millions)—	Net Sales 1948	Net Per Share 1949	Net Per Share 1948	Net Per Share 1st Quar. 1950	Divs. Per Share 1949	Divs. Per Share 1948	Div. Yield‡ %	Price-Earnings Ratio†	Recent Price	Price Range 1949-50
Armstrong Cork	$163.3	$173.0	$6.57	$7.54	......	$3.00	$3.00	5.8%	7.8	51¾	53 -38⅝
Bendix Home Appliances	34.9	50.1	.57	3.78	$ .62	.375	1.125	2.5	25.4	14½	16 - 6¾
Bigelow-Sanford	67.4	85.2	4.10	8.11	1.41	2.40	2.70	8.4	6.9	28⅜	28⅞-22¼
Carrier Corp.	46.2(a)	54.4(a)	2.72	4.19	......	1.00	.25	4.9	7.4	20¼	20⅜-12½
Congoleum-Nairn	43.0	60.3	3.04	5.78	......	2.00	2.25	7.4	8.8	27	30½-24¾
Eureka Williams	7.3(b)	15.1(b)	1.48(d)	.24	.26(c)	......	.125	......	......	6⅜	6⅞- 3¾
Florence Stove	22.6	28.6	2.03	6.14	.43	1.50	2.25	5.8	12.6	25⅝	28 -18½
General Electric	1,613.5	1,632.7	4.36	4.29	1.28	2.00	1.70	3.9	11.5	50¼	50¼-34
Holland Furnace	35.7	41.0	3.69	4.48	.03	2.75	3.00	9.6	7.7	28½	29¾-20
McGraw Electric	69.3	33.3	8.11	7.12	2.31	3.50	3.50	7.2	5.9	48	52½-29⅛
Mohawk Carpet	56.8	61.7	5.95	7.86	1.96	3.00	3.00	8.4	5.9	35⅝	36 -25
Philco Corp.	214.8	275.4	3.17	6.32	2.37	2.00	2.00	4.3	14.5	46¼	54½-22¾
Radio Corp. of America	396.1	356.8	1.58	1.50	.75	.50	.30	2.5	12.1	19⅞	23¼- 9⅝
Servel	41.2(a)	71.0(a)	.51(d)	3.00	(e).46(d)	.30	1.00	2.2	......	13⅜	14 - 6¼
Simmons Co.	110.4	125.5	4.50	7.10	......	2.50	2.50	8.0	6.8	31	31¼-22
Sunbeam Corp.	50.2	41.1	10.83	8.52	......	3.00(h)	2.50	5.3	5.1	56¼	71 -26½
Westinghouse Electric	945.6	970.6	4.95	3.88	.87	1.40	1.25	4.0	6.9	34⅝	35⅝-20⅝
Zenith Radio	77.1(f)	79.4(f)	5.50	7.08	6.37(g)	1.50	1.50	2.5	10.4	57¼	70¼-20⅝

‡—Based on 1949 dividends.
†—Based on 1949 earnings.
(a)—Year ended October 31.
(b)—Year ended July 31.
(c)—6 months ended January 31, 1950.
(d)—Deficit.
(e)—Quarter ended January 31, 1950.
(f)—Year ended April 30.
(g)—9 months ended January 31, 1950.
(h)—Plus 25% stock.

Happening in Washington

BIG BUSINESS-POLITICAL WHIPPING BOY

By E. K. T.

BIGNESS in business is the fundamental point in many recent Department of Justice actions predicated upon asserted antitrust law violations, say business economists, and they have apparent evidence in support of their complaint. The suit against The Great Atlantic & Pacific Tea Co., can hardly be placed in any other category. While the government lawyers pout at A & P's tactics of presenting its case to the public through paid advertising, and they nibble at issues thereby clarified, there has been a significant lack of reply to the charge of assault upon success as represented in large-scale wholesaling.

SWITCH in the type of complaints arising under the Sherman Act has been abrupt. For many years the stock charge had been collusive price fixing or one of the closely related infringements. But if pending cases are analyzed, the inescapable conclusion is that "bigness" is the target. That's true not only of the A & P case, but also of the lesser-publicized attempt to dissolve the "Big Four" meat packers; of the litigation to force a separation of Western Electric Co., from American Tel and Tel; of the campaign to require Du Pont to slough off its interests in General Motors and United States Rubber.

STEEL has been a whipping boy before the O'Mahoney Committee. A majority of the committeemen joined in a report condemning the practices of the committee—and a review of their legislative histories show that they have been habitually on the side of "soak big business." They even went so far as to urge that steel production be labeled a public utility, the first step in the socialization of the industry. And the reasoning, again, was—bigness. With no yardstick proposed, the question naturally arises at what point does a business become profitable enough to be an "economic danger."

JUSTICE DEPARTMENT has been getting big business going and coming. If competitors charge the same price for their products they're sure to land in court for violation of the Sherman Act. If they undersell competitors they're in under the Robinson-Patman Act. In the first instance they are held to have such economic control as to make possible a policy of exacting "all the traffic will bear"; in the second instance they are held to have such economic power as to force competition out by absorbing losses over a long period. Which prompted Justice Jackson, certainly no friend of the "interests" to comment; "It is impossible for a lawyer to determine what business conduct will be pronounced lawful by the courts."

WASHINGTON SEES:

Working hand-in-hand with the democratic national committee, the political wings of nationwide labor organizations are pitching their campaigns upon an issue too delicate and explosive for an established party to put forth, but which nevertheless is basic in the Administration's planning for the November elections: Big business is making huge profits.

Headlines clipped from newspapers and other publications reflecting the profit statements of corporations are being reproduced in union papers whose aggregate circulation goes into the millions. Reports of the Federal Trade Commission, which select a relative handful of business organizations and cite their high 1949 earnings are being given the widest possible circulation under the aegis of the unions. And speeches along the same line are being fed to all democratic congressmen and made "official documents" by insertion in the Congressional Record.

Big business is being put on the defensive months in advance of the countrywide campaigns.

President Truman is giving the issue a new twist. Under the coloration of proof that big business has nothing to fear from his Fair Deal, he is reiterating the profit figures. But always there is emphasis upon the point that more dollars are flowing into the corporate treasuries than in past years. And, of course, he is indulging in the process of eliminating other possible sources of higher tax incomes to be tapped to the extent that excises are reduced or repealed.

Vice President Barkley, too, is getting in swipes. Defending expanding federal government he declared that government has grown only in proportion to "Big Business" and "Big Labor."

As We Go To Press

President Truman's selection of Leon Keyserling to head the Council of Economic Advisers bears out inside rumors of several months' currency that the chairmanship would be kept open until the public was "ready" to accept Keyserling practices as a switch (a somewhat drastic one) from those of his predecessor, Dr. Edwin G. Nourse.

The appointment is essentially political in nature, regardless of Keyserling's standing as an economist. It is tantamount to an admission by the White House that CEA is regarded to be a servant of the Administration, enlisted in the promotion of its policies. The thin pretense that its original role of objective research unit has been preserved, now has been abandoned.

Yet the change, in operation, could be more apparent than real. Keyserling, faithfully followed by Member John D. Clark, substantially controlled CEA even while Nourse was its nominal head. Over Nourse's protests it became a militant advocate of White House policy. The chairman had no alternative to resignation when he was out-voted on the issue pointedly raised when Keyserling held CEA's function was not only to gather the facts but also to promote them in the arena of congressional and departmental battles.

Dr. Roy Blough, new member of the advisory board, is not likely to insist upon return to the original purposes of CEA. He could accomplish nothing in that direction, if he were disposed to try it. The team of Keyserling and Clark can, and will, snow him under. And as a ranking economist he was familiar with the inside story of CEA, accepted the appointment with his eyes wide open, its consequences apparent.

Appointment of Blough is not criticized by the professionals in the business. He is competent and experienced, run the commentaries of his fellow economists. But there are some who find little in his record in federal position on which to base the thought that he will be a lone wolf, fighting off the political pack. He was intimately linked to the Henry Morgenthau school of fiscal policies, which run closer to the Keyserling thinking than to the Nourse principles.

The Department of Justice, which normally operates beyond the pale of public criticism (the politically appointed head, the Attorney General if naturally an exception), has been having a hard time. Criticism by a District of Columbia federal judge that anti-trust actions are so numerous and based on such weak grounds as to remove the stigma formerly attached to those proceedings, touched off the current rounds of condemnatory talk.

Now comes Senator Robert A. Taft with the flat accusation that the Department of Justice is seeking to thwart the will of congress by scuttling the Taft-Hartley Act. As is his practice, Taft documents his charges. He cited decisions of the federal law office on union welfare funds and the checkoff which, the Ohioan accuses, nullified a section of the law. And he followed with the thrust "its conduct of the contempt case against the United Mine Workers could not have been weaker if it had deliberately desired to bring about an adverse decision."

The country is witnessing for what probably will be the last time, an attempt to group all federal appropriations under an omnibus bill. Much was expected of the innovation, introduced by Chairman Clarence Cannon of the appropriations committee. It has developed fatal flaws and won't be tried again. That forecast is made by congressmen of such widely divergent views on spending as Rep. John Taber, republican head of the economy bloc, and Rep. John McCormack, majority leader.

The Taber and the McCormack objections are dissimilar. The republican leader found it impossible to get the 400-page bill into sharp enough focus to find

the spots at which the pruning knife might be applied. He thinks more fat could be rendered from the budgetary total if each department's requests were separately considered. McCormack contends the overall cuts are unscientific and unrealistic. Speaker Rayburn never liked the idea.

One result of Senator Pepper's defeat in the Florida democratic primary may be a retreat by organized labor from support of the national health insurance bill. Rep. Smathers, who bested the veteran senator, pitched his campaign against "socialization" upon the medical bill. While Pepper's friendly comments on Russia blared from sound truck recordings throughout the state, it was the fear of socialism rather than of communism that counted heavily.

United Mine Workers has been admonished by the editors of its "Journal" to take heed. They wrote: "On the medical question, labor had better begin to think, because if resentment of the voters to national medicine in one-third of the states proves as beneficial to reactionary candidates as in the case of Smathers, the problem of repealing the NAM-TH law -- so long as both are linked in the Truman program -- will be three times as difficult."

And the miners may re-mold their legislative program additionally and importantly. Their leaders are attempting a sort of political alchemy which will produce a support of President Truman and his congressional "faithful" without going all the way on the "Truman Fair Deal." They remind: "Pepper had to bear the brunt of all the fault-finding levelled at the Brannan Plan, Foreign Aid, give-away money, Point Four, lowering of tariffs, government extravagance, 'commie' influence in government, Kansas City graft, FEPC, repeal of the Taft-Hartley Act and, of course, national medicine."

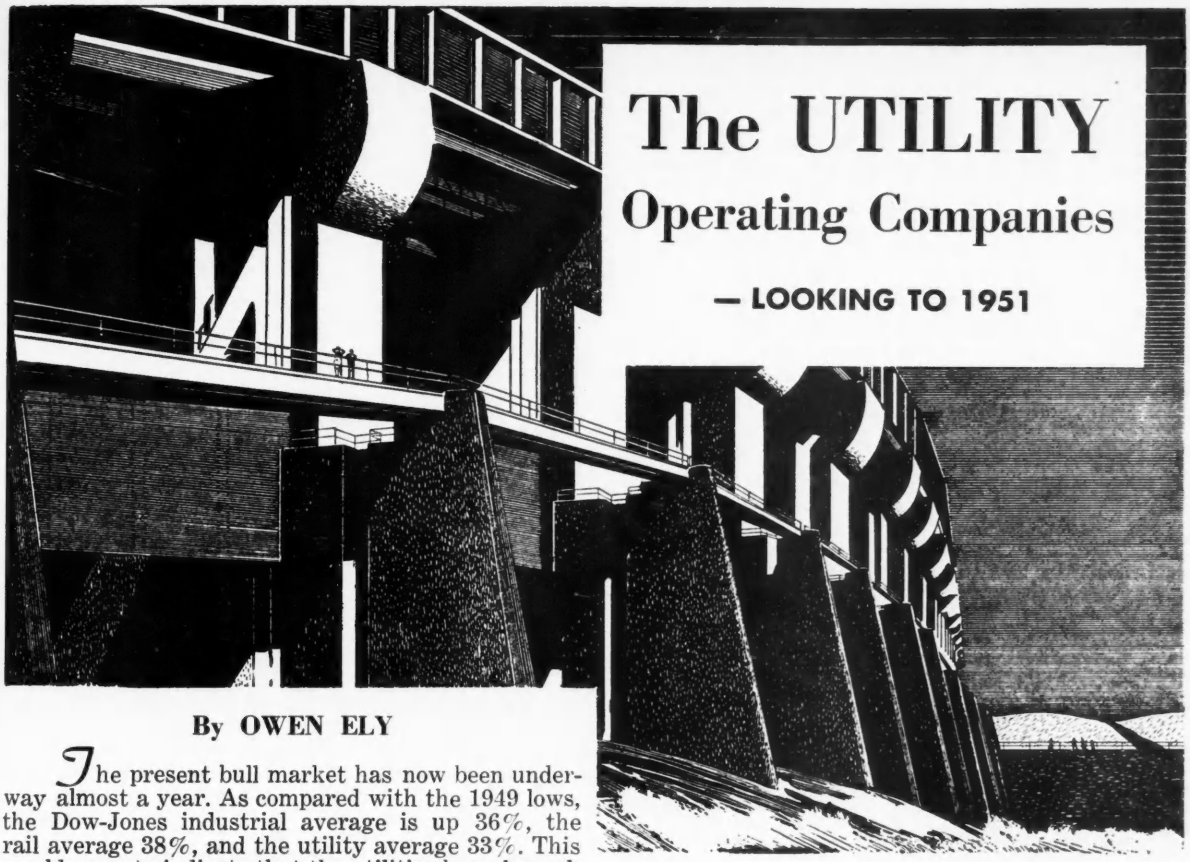
The real estate market outlook for the remainder of 1950 is good, with brisk demand expected for both business properties and homes. So says the National Association of Real Estate Boards after a survey of 470 cities. Calls for business space, a good economic barometer, will be heavier than in 1949 in 21 per cent of the cities; about equal to last year's in 60 per cent, and will relax in 19 per cent, say the queried realtors.

Lucerne Milk Co., subsidiary of Safeway Stores, is trying to clear its corporate brain of confusion left by the latest of government rulings. The company was one of five sued by the Department of Justice in a monopoly action predicated upon alleged price fixing. It was one of two firms (aggregate business of the two is 13.1 per cent of the total in the Washington area) which were found guilty.

Companies doing 86.9 per cent of the business in the Capital, co-defendants in the litigation, were cleared of the charge of monopolization. Yet, while price fixing was charged, Lucerne does not adhere to the higher prices charged by its larger competitor -- it sells through Safeway retail stores only, and at one cent below the general market. The other firm found guilty doesn't sell at retail at all, but distributes only to District of Columbia charitable and penal institutions. And at a price even lower than Lucerne!

But that isn't all. Lucerne applied to the Virginia Milk Commission for permission to add Vitamin D to its product without increasing the price to the consumers. The Virginia law, however, requires that a one-cent per quart premium be exacted for vitamin-fortified milk. The company pleaded that, since it costs only 44/100 of one cent to add the element "D" to a quart of milk, a one cent per quart price boost could not, in its opinion, be justified. But the state commission, protector of the consumers, is adamant: add one cent to the price or leave the vitamin out!

It was the threat of Railway Labor Act revision to require arbitration, more than any other factor, that ended the six-day strike to enforce a ""featherbedding" that the workers weren't able to make stick. And the union succeeded, it appears; congressional demands for amendent of the Act quieted immediately. Public opinion was definitely against the strike and its leaders were anxious to "get off the hook."



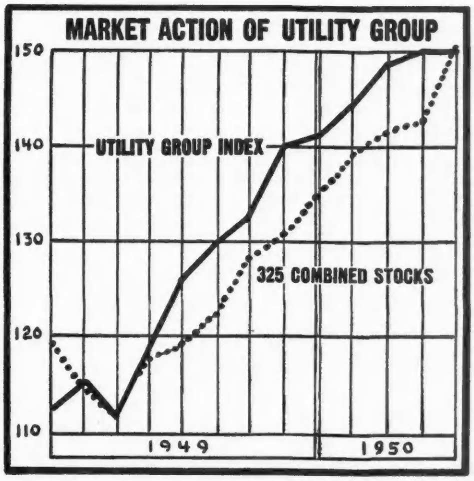
The UTILITY Operating Companies

— LOOKING TO 1951

By OWEN ELY

The present bull market has now been underway almost a year. As compared with the 1949 lows, the Dow-Jones industrial average is up 36%, the rail average 38%, and the utility average 33%. This would seem to indicate that the utilities have lagged, but this has been the case only in the past two months. The utility average regained the 1946 high of 43.74 on March 16 this year, while the industrial average did not accomplish this feat until April 8 (the rails are still far below the 1946 high of 68.3). But the industrial average after some hesitation started on a fresh advance to the present level about 9 points above the old high, while rails and utilities continued in a sideways movement. During the past week, however, utilities have broken into new high ground, though they remain only fractionally above the old high.

What's the outlook for the balance of 1950? Can the utilities continue to forge ahead as they have done in the past, or will they show a lagging tendency? The answer would seem to be dependent on four factors — inflationary trends, current earnings, the amount of new stock offerings, and the opening up of new investment demand for utility stocks from pension funds, trust funds, etc.



The factor which may have caused the recent market slow-down is the recurring fear of the effects on future utility earnings of higher costs and a renewed inflation spiral. First there were the higher coal prices resulting from the wage increase to Mr. Lewis' cohorts; then the rising metal prices, and now the threat of slightly higher Federal income taxes (an increase in the corporate tax rate from 38% to 40% is proposed). The rise in coal costs is not serious and can be absorbed in the lower operating costs of the new generating equipment. The rise in metal prices has not been serious as yet and is more or less subject to U. S. Government control through the tempo of the stockpiling program, so that a runaway trend seems unlikely. The proposed increase in the tax rate is also not very serious since it would be equivalent to the loss of only about 3% in the earnings available for common stock.

Nevertheless these inflationary factors, taken together, probably account for the hesitant action of the utility market in recent weeks. Industrial companies can freely raise their prices to offset mounting costs; while utilities can theoretically do the same, there is always a lag resulting from long regulatory delays and occasional resistance to upward re-adjustment due to political factors.

The electric light and power companies continued to make an excellent operating showing in the past year. In the twelve months ended Febru-

1949 Key Statistics and Ratios on

	Boston Edison	Cincinnati Gas & Elec.	Cleveland Elec. Ill.	Common-wealth Edison	Consolidated Edison	Consolidated Gas, Elec. Lt. & Power of Baltimore
PLANT VALUE (MILLIONS) GROSS	$240	$175	$251	$1,002	$1,381	$228
Depreciation Reserve	61	45	70	247	247	51
Intangibles	......	......	......	......	9	12
Net Plant Account	179	130	181	755	1,125	165
CAPITAL RATIOS—Ratio of Senior Securities to Net Plant	40.2%	50.5%	38.7%	50.3%	43.3%	52.8%
Senior Securities to Total Capitalization	54.0	57.8	46.1	52.5	54.6	48.8
Preferred Stock to Total Capitalization	......	23.8	16.8	......	19.6	16.4
Common Stock to Total Capitalization	46.0	18.4	37.1	47.5	25.8	34.8
ANALYSIS OF REVENUES—Electricity %	95.2%	68.1%	95.2%	88.8%	76.1%	70.8%
Gas %	......	30.3	......	10.7	17.8	27.1
Miscellaneous %	4.8	1.6	4.8	0.5	6.1	2.1
INCOME ACCOUNT—Gross Revenues (Millions)	$64	$59	$63	$249	$366	$73
Operating Expenses (including pur. power or gas)	30	32	32	121	171	46
Maintenance	6	4	4	16	38	6
Depreciation	6	4	6	24	34	5
Taxes—Federal Income	4	5	4	19	20	5
Taxes—Other	8	4	6	31	54	6
Net Operating Income (after all taxes)	10	10	11	38	49	11
Fixed Charges, etc. (less misc. income)	3	1	1	9	14	3
Net Income	7	9	10	29	35	8
EXPENSE RATIOS—Ratio Depreciation to Gross Revenues	9.5%	6.4%	9.5%	9.5%	9.4%	7.1%
Maintenance to Gross Revenues	9.3	6.5	6.9	6.5	10.3	......
Combined Ratios	18.8	12.9	16.4	16.0	19.7	......
Operating Ratio (including taxes)	85.1	82.0	83.1	84.5	86.5	85.8
EARNINGS RATIOS						
Ratio Net Operating Income to Net Plant Account	5.3%	8.1%	5.9%	5.1%	4.4%	6.4%
No. of Times Fixed Charges Earned, After Taxes	3.91	7.85	10.10	3.79	3.41	3.95
No. of Times Charges and Preferred Divs. Earned	......	4.41	4.85	......	2.05	2.73
Earned Per Share on Common Stock in 1949	$2.91	$3.33	$3.06	$2.13	$2.22	$1.52
SOURCE OF ELECTRIC POWER—% Purchased	6%	4%	......	......	......	25%
SALES OF ELECTRIC POWER ($)—% of Total						
Residential	32.0%	31.5%	28.2%	30.2%	33.2%	......
Commercial	33.5	14.4	14.4	23.0	a	......
Industrial	14.8	44.4	51.8	32.5	55.5	......
Other	19.7	9.7	5.6	14.3	11.3	......
COMMON STOCK—Recent Price	$48	$33	$46	$32	$33	$26
Indicated Dividend Rate	$2.80	$1.80	$2.40	$1.60	$1.60	$1.20
Dividend Yield	5.8%	5.5%	5.2%	5.0%	4.8%	4.6%
Price-Earnings Ratio	16.5	9.9	15.1	15.0	14.9	17.1

(a)—Included in Industrial. (b)—Included in Operating Expenses.

ary 28, 1950, the number of residential electric customers increased only 4.3%, but due to the greater use of appliances, the KWH sales gained 12.9% over the previous twelve months. Commercial sales increased 8.2% but industrial sales, which make up about 40% of the total, were down 4%, and total sales gained only 1.3%. Turning to the revenue figures, we find that residential dollar sales gained 10.8%, based on an average KWH rate of about 2.94¢ compared with 3.01¢ in the earlier period. Commercial revenues gained 7.3% while industrial revenues were down only 1%, reflecting an increase in rates for this type of service (ordinarily rather unprofitable). Total revenues gained 4.4%.

The utilities in 1949 benefited by sharply lower fuel costs. On a composite basis, fuel expenses, which in dollar terms about equal net income, were down 9.8% in the twelve months ended February, and while taxes were up 11.4%, total operating deductions increased only 2.4%. Miscellaneous income, while not a very important factor, gained sharply, reflecting more profitable gas and miscellaneous operations, so that gross income gained 13.5%.

Fixed charges were only 9.8% higher than last year (due in part to a substantial credit for interest on construction) so that net income gained 14.8%. After deducting preferred dividends, the gain in the balance for common stock was about 16.2%. Of course this would have to be measured against the increased amount of stock outstanding at the end of the year, figures for which are not yet available. At the end of 1948, the common stock equity was about $5.6 billion, and some $342 million of new common

Important Utility Companies

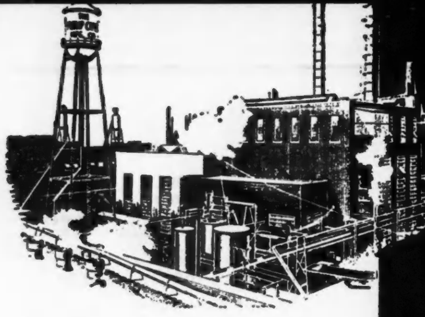
Delaware Power & Light	Detroit Edison	Illinois Power	Indianapolis Power & Light	Pacific Gas & Elec.	Philadelphia Electric	Public Service Elec. & Gas	Public Service of Indiana	Southern California Edison	Virginia Electric & Power
$75	$461	$179	$100	$1,245	$569	$564	$152	$542	$226
12	102	18	19	254	99	134	18	108	29
2	5	7	6	16	7	13	3	......	6
61	354	154	75	975	463	417	131	434	191
57.3%	56.8%	55.3%	69.6%	56.1%	52.6%	68.1%	58.1%	46.8%	55.3%
51.5	56.6	57.8	64.2	56.9	51.2	62.6	52.1	48.2	61.1
20.6	......	6.8	17.1	21.6	15.6	5.5	20.1	28.8	16.7
27.9	43.4	35.4	18.7	21.5	33.2	31.9(c)	27.8	23.0	22.2
84.8%	96.3%	80.1%	90.9%	69.2%	87.9%	74.1%	100%	100%	94.1%
15.2	......	18.4	......	30.0	10.2	25.9	......	......	5.9
......	3.7	1.5	9.1	0.8	1.9	......	......	......	......
$19	$134	$40	$25	$217	$140	$172	$40	$100	$56
9	75	18	10	106	59	76	17	33	28
1	12	2	2	12	12	18	2	12	4
2	9	4	2	25	14	13	4	11	4
2	7	4	2	10	15	12	4	9	4
1	12	3	3	26	8	23	3	12	5
4	19	9	6	38	32	30	10	23	11
1	6	2	2	10	9	9	2	4	3
3	13	7	4	28	23	21	8	19	8
8.8%	6.7%	9.0%	10.1%	11.5%	9.7%	7.4%	9.0%	10.9%	6.8%
5.9	8.9	5.2	7.1	5.7	8.3	10.4	6.5	11.6	7.8
14.7	15.6	14.2	17.2	17.2	18.0	17.8	15.5	22.5	14.6
80.1	85.5	78.9	77.5	82.5	77.5	82.2	76.1	77.4	80.5
6.2%	5.5%	5.5%	7.5%	3.8%	6.9%	7.2%	7.3%	5.2%	5.7%
4.72	3.17	5.11	3.11	3.59	3.47	2.95	4.33	4.11	3.54
2.88	......	4.11	2.36	1.80	2.47	1.12	3.51	2.12	2.42
$1.95	$1.73	$3.04	$2.89	$2.06	$1.81	$2.25	$2.48	$3.16	$1.65
61%	......	53%	......	......	......	......	9%	......	6%
41.5%	36.3%	32.2%	31.6%	30.4%	29.1%	33.4%	31.5%	41.6%	38.0%
24.1	29.9	25.5	28.5	23.8	22.5	29.0	18.5	20.8	33.7
21.8	30.2	25.8	34.4	25.2	32.2	32.1	33.3	22.2	17.2
12.6	3.6	16.5	5.5	20.6	16.2	5.5	16.7	15.4	11.1
$22	$23	$40	$33	$34	$27	$25	$29	$35	$21
$1.20	$1.20	$2.20	$1.60	$2.00	$1.20	$1.60	$1.80	$2.00	$1.20
5.5%	5.2%	5.5%	4.8%	5.9%	4.4%	6.4%	6.2%	5.7%	5.7%
11.3	13.3	13.1	11.4	16.5	14.9	11.1	11.7	11.1	12.7

(c)—Includes Preference Stock.

stock was issued during the year, or an increase of about 6%. On this basis, therefore, there would apepar to be a gain in average share earnings of about 10% in 1949. Increased earnings for individual companies during the year were remarkable in some cases; some of the more important gains are listed in the appended table.

In studying individual company earnings, production costs are usually by far the most important item influencing the trend of net income. For hydro companies such as Pacific Gas & Electric, New England Electric, Niagara Mohawk Power, Southern Company, Central Maine Power, etc., water conditions are all-important. Pacific Gas has been handicapped for several years by lack of adequiate rainfall. Niagara Mohawk and the New England companies also suffered from irregular droughts during 1948 and early 1949 but have enjoyed better hydro operations over the past 6 or 8 months. Southern Company enjoyed abnormally good rainfall last year but this year, hydro power has been running 25% less (below normal) with resulting increased production costs.

Another important production factor is the use of cheap natural gas, which is enjoyed by some of the Southern companies such as Southwestern Public Service, Central & South West, Texas Utilities, and in lesser degree by Southern Company which gets some dump gas, and will use gas at its big new Yates plant which opens late this year. In Florida, oil is mostly used and earnings were stimulated in 1949 by the sharp decline in oil prices. The northern companies may get a little gas to use occasionally as boiler fuel when they (*Please turn to page* 286)



Reappraisal of . . . . Utility Holding Companies

By EDWIN A. BARNES

After the 1935 Holding Company Act was passed, as an anticlimax to the period of hectic holding company promotions which culminated in the 1929 crash, it required some years for the SEC to "get its bearings." The slow process of trial and error, both as to formation of policy and clarification of the Commission's legal rights, required about 10 years. During these and later years, almost every holding company filed dissolution plans which were revised, amended and in many cases discarded with proceedings starting all over again. Sudden changes in the market prices of operating company stocks made a vast difference in the break-up values for the high-leverage holding company securities. A classic example is Central States Electric preferred stock, which in 1942 sold at 5¢ a share (according to Moody's Manual) and this year made a high of $173. Another case was Standard Gas & Electric common stock, which a few years ago was de-listed from the New York Stock Exchange on the ground that it had no indicated value, and this year sold over-the-counter as high as 9⅞.

The bull market of 1942-46 was a great "catalyst" for the SEC's holding company dissolution program. The advance in the prices of underlying securities added hundreds of millions of dollars to the value of holding company portfolios and made the task of allotting values to all classes of security holders much simpler than in 1942, when the Commission's "death sentences" meant literally that to the investments of thousands of security holders who had dabbled in the 1929 holding company orgy.

In 1949 a number of plans which had been progressing for years suddenly "jelled," and the increased market interest in these securities provided good cheer for investors, speculators and arbitrageurs as well. The latter helped to create good markets for the new subsidiary company stocks by initiating "when delivered" trading during the interim periods between the court decisions and the consummation of the actual exchanges under the plans. They protected themselves by selling short the old holding company securities as a hedge. This tended to stabilize both old and new securities.

In 1949 and early in 1950, rapid progress was made with the break-up of six big systems—American Power & Light, Electric Power & Light, Niagara Hudson Power, United Light & Railways, North American Company and Middle West Corp. The preferred and common stocks of *American Power & Light* received allocations of five common stocks—Texas Utilities, Florida Power & Light, Montana Power, Minnesota Power & Light and new common shares of the parent company, American Power & Light itself. The latter company was kept alive as a temporary holding company for the two northwestern subsidiaries, Pacific Power & Light and Washington Water Power. The former has since been sold at a good price and the proceeds (a little less than $7 a share) will probably be distributed to AP holders within two or three months. It seems probable that Washington Water Power will also be sold at some later date although certain stockholders have asked that it be distributed pro rata to AP stockholders now. In any event, final dissolution of AP appears likely in 1951.

Electric Power & Light

Electric Power & Light had already disposed of some of its subsidiaries and at the time of its dissolution held only the stocks of United Gas and a new holding company, Middle South Utilities. The latter had taken under its control the three southern subsidiaries, Dallas Power & Light, Texas Power & Light, and Texas Electric Service. During 1950, Texas Utilities has proved one of the most popular of the new stocks, advancing from 19½ to 27½. Its popularity is apparently due to its location entirely in the State of Texas, where there is no state regulatory commission and where state law permits an

8% return on the rate base as "reasonable." Moreover, the company's recent earnings have shown a sharp gain over last year, partly due to non-recurring factors. The stock seems to be working into an investment position similar to that of Houston Lighting, which has long sold on a relatively low yield basis.

Niagara Hudson Power will not consummate its dissolution plan until late this year or early next year but those who wish to receive 78/100 share of the new merged operating company, Niagara Mohawk Power, can make the exchange by paying a 50¢ assessment after June 10 (the assessment had previously been reduced from $1 to 75¢). Around the end of the year, the new stock will be distributed without any assessment, and the old company wound up.

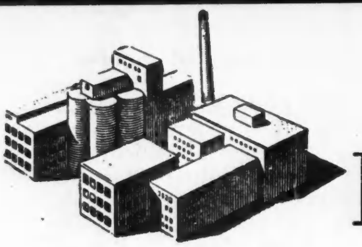
The dissolution of *United Light & Railways* is also "just around the corner." The program has involved a number of steps, the latest of which was the sale of Kansas City Power & Light to its own stockholders at $12 a share (affording valuable rights since the new stock was quoted around 30) and the distribution of St. Joseph Light & Power. The next steps will be the distribution of Eastern Kansas Utilities and Iowa Power & Light, with Iowa-Illinois Gas & Electric probably to be distributed later in the summer — the last step before dissolution.

North American Com- *(Please turn to page* 289)

Position and Prospects of Leading Utility Holding Company Shares

	Recent Price	Approx. Range 1949-50	Dividend Rate	Approx. Yield	Recent Earnings	Price-Earn. Ratio	Est. Break-Up Value	COMMENTS
INTEGRATED HOLDING COMPANIES								
American Gas & Electric	53½	55 -37½	$3.00	5.6%	$4.17	12.8		First quarter earnings affected by non-recurring difficulties. Company plans to continue expansion program. Management considered excellent from both engineering and financial angles, and stock well regarded in investment circles.
Central & South West	15½	16½-10½	.90	5.8	1.45	10.7		Net income gains about 10 per cent per annum (offset in past two years by new stock issues). May earn $1.55 this year, and further equity financing may be deferred to 1952. Increase in dividend from 90¢ to $1.00 considered possible around year-end.
General Public Utilities	17½	18½-11	1.00	5.7	2.13	8.2		Increase in dividend rate to $1.20 considered possible in second half. Further earnings gains possible due to modernization program, particularly in the Manila subsidiary.
Middle South Utilities	19	20½-14	1.10	5.8	1.80	10.6		Has stronger capital structure than other southern holding companies. Plans unique exchange of common stock for high dividend subsidiary preferreds, further improving equity ratio.
New England Electric System	13	13 - 8	.80	6.2	1.38	9.4		Company now enjoying better hydro operations and improved earning-power. Anticipated restoration of $1 dividend rate may be deferred until 1951, however.
New England Gas & Electric	14½	16 - 9½	.90	6.2	1.51	9.6		Dividend pay-out restricted somewhat by heavy sinking-fund on debentures. Soundly managed, year's level despite 25 per cent lower hydro benefit further by natural gas when this reaches New England.
*North American Company	20½	21½-15½	1.20	5.9	1.40	14.6		Stock has lost market "romance" since announcement of plan to merge with subsidiary, Union Electric Co.; miscellaneous assets and cash, equalling several dollars per share, will lodge in Union's treasury, not be distributed to NA stockholders.
Southern Company	12½	13½- 8	.80	6.4	1.29	9.7		Current earnings are being maintained at last eyar's level despite 25 per cent lower hydro operations (last year was abnormally favorable). Company will sell 1 million shares about July 25th.
Texas Utilities	28	28 -19	1.28	4.6	2.33	12.0		This stock has proved most popular among southern holding companies, advancing from 19½ to 27½ in 5 months. Company entirely in Texas (no regulation by state). Excellent growth possibilities, but present yield is low (4.7%).
COMPANIES IN PROCESS OF INTEGRATION								
Electric Bond & Share	20	23 -10½	Stock		.50	40.0	$25-30†	Three issues before SEC: claim of preferred stubs, distribution of United Gas holdings, recap of American Foreign Power. Complete break-up unlikely. Potential tax-free EBS dividends after Foreign Power is recapitalized.
Middle West Corp.	2¾	7½- 1½	Stock				3	Liquidation now approved by SEC, and when court also approves, company will distribute $2.50 cash; remaining assets, estimated at 50¢ per share, to be distributed at end of 1951.
New England Public Service	7½	7½- 3			1.23	6.1	5-10	Progress toward dissolution slow, and SEC threatens appeal to Federal court to expedite partial sale of assets to retire bank loans. No allocation plan yet.
Philadelphia Company	21½	24½-11	.70	3.3	1.22	17.6	20-25	Natural gas properties sold for $63 million. Funded debt retired, but exchange of non-callable preferred stocks may take time. Duquesne earnings expected to increase about 50% by 1951-2 (over 1949).
Standard Gas & Electric	10	10 - 5					6-10	Break-up value very difficult to estimate, since Philadelphia Company dissolution may not be completed for some time and new Standard Gas allocation plan has not yet been filed (all old plans are being scrapped).

*—To be merged with its remaining utility subsidiary, Union Electric of Missouri.
†—Complete break-up not anticipated.



★ ★ ★

FIVE High Yield Stocks IN A Buying Range

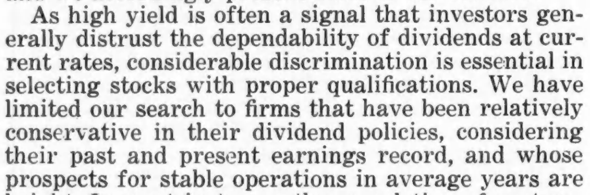
By Our Staff

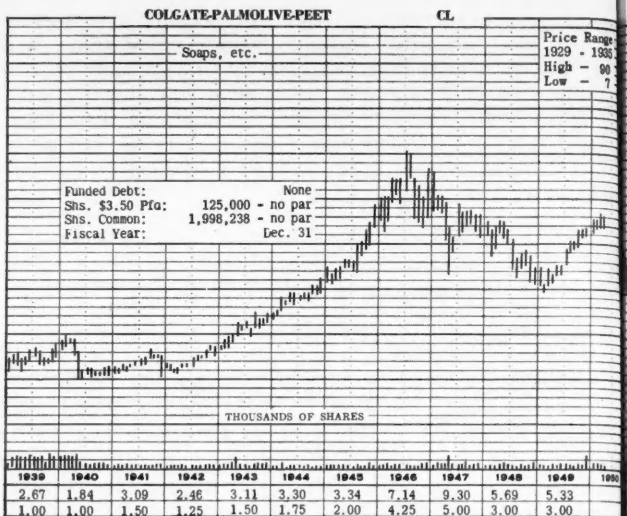
The broad advance in stock prices within the last eleven months has narrowed the list of fundamentally sound equities with an above-average yield that should prove dependable. There still remain, however, a number of situations which upon careful appraisal hold promise of maintaining their liberal dividend income in the foreseeable future. As a result of extensive research, we have picked five stocks that in our opinion command confidence in this respect, and we accordingly present them to our readers.

As high yield is often a signal that investors generally distrust the dependability of dividends at current rates, considerable discrimination is essential in selecting stocks with proper qualifications. We have limited our search to firms that have been relatively conservative in their dividend policies, considering their past and present earnings record, and whose prospects for stable operations in average years are bright. In most instances the completion of postwar improvement programs may make possible the distribution of a larger share of earnings than in the recent past, while current broad coverage of dividends should provide a cushion in the event of a moderate decline in net income.

Included on our lists are representatives of five different industries that are strongly entrenched in the economy—building, oil, soap, instalment credit and the manufacture of air brakes. The concerns selected are among the leaders in their respective fields, with records that attest to efficient management, strong finances and a satisfactory status in the trade. Their sales and earnings potentials on the road ahead point to continued dividend stability.

On following pages, we present statistical data relative to the five concerns we have chosen, accompanied by brief comments as to their outlook for business in the current year.





COLGATE-PALMOLIVE-PEET COMPANY

BUSINESS: Company is one of the leading soap manufacturers in the world, additionally producing an extensive line of toilet preparations, including shampoos, dentifrices, shaving creams, face powders, lotions and lipsticks.

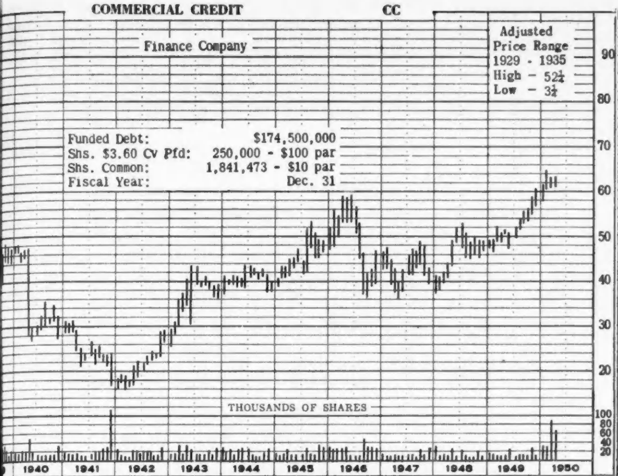
OUTLOOK: The basic character of the company's numerous products in meeting essential personal and household needs, together with its strongly established trade names, points to continued growth on a worldwide scale. The management predicts that tonnage sales of the company's products in the current year should continue at about the same level as in 1949. While dollar sales in the first quarter of 1950 were about 9% lower than a year earlier, this was mainly due to reduced prices. Despite smaller volume, though, operating margins widened because the cost of raw materials declined at a faster rate than those of finished items. In consequence, net earnings in the first quarter rose to $1.79 per share from $1.71 in the like 1949 period. As costs of fats and oils are now relatively stable, there should be no recurrence of inventory losses such as incurred in the last two years, while satisfactory margins should be maintained under heavy competitive conditions because prices should be relatively firm for the company's highly popular brands. Colgate's tooth paste, for example, leads the market by a wide margin, and the new "Fab," a heavy duty detergent, has just been placed on a national distribution basis. Looking ahead, the management sees a bright future for synthetic detergents and suggests they may create more stable earnings, as they are not subject to the wide price fluctuations characteristic of fats and oils.

DIVIDENDS: For the past 55 years, dividends have been paid without interruption. Ample coverage of dividends by earnings is indicated for the current year, and a liberal year-end extra should supplement the current quarterly rate of 50 cents a share.

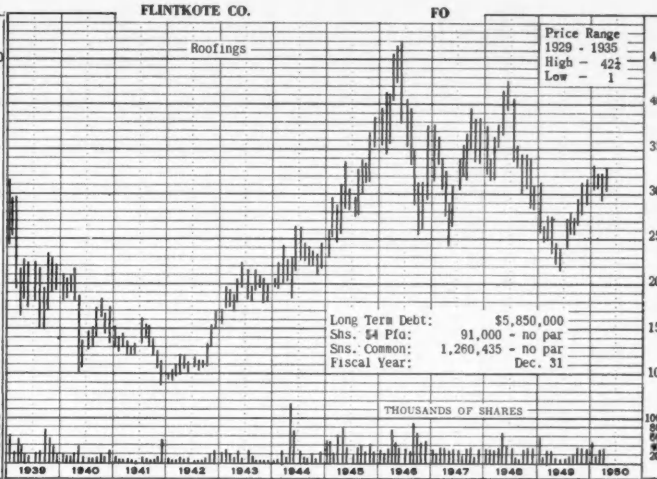
MARKET ACTION: Recent price—45 compares with a 1950 high of 46⅝ and a low of 42¼. Based on total dividends paid in 1949, the current yield is 6.6%.

COMPARATIVE BALANCE SHEET ITEMS

	Dec. 31 1940	Mar. 31 1950 (000 omitted)	Change
ASSETS			
Cash	$ 13,213	$ 14,561	+$ 1,348
Marketable Securities	150	9,500	+ 9,350
Receivables, Net	9,804	15,660	+ 6,856
Inventories	18,568	20,953	+ 2,385
TOTAL CURRENT ASSETS	41,735	60,674	+ 18,939
Net Property	18,852	35,537	+ 16,685
Investments	6,943	8,423	+ 1,480
Other Assets	838	4,127	+ 3,289
TOTAL ASSETS	$ 68,368	$108,761	+$ 40,393
LIABILITIES			
TOTAL CURRENT LIABILITIES	$ 10,209	$ 12,640	+$ 2,431
Mortgage Debt	2,137	....	— 2,137
Deferred Liabilities & Reserves	4,767	4,330	— 437
Other Liabilities	1,470	....	— 1,470
Preferred Stock	12,500	12,500	— ....
Common Stock	24,535	24,972	+ 437
Surplus	12,750	54,319	+ 41,569
TOTAL LIABILITIES	$ 68,368	$108,761	+$ 40,393
WORKING CAPITAL	$ 31,526	$ 48,034	+$ 16,508
CURRENT RATIO	4.8	4.8	....



	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950
EARN.	4.23	4.65	3.56	3.17	2.80	2.40	2.15	3.85	11.00	9.16	
DIV.	3.25	3.00	3.00	3.00	2.25	2.00	2.00	2.00	3.20	4.00	
Wkg Cap $ Mil	-	-	-	-	-	-	-	-	-	-	



	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950
EARN.	2.11	2.10	2.35	1.88	1.51	1.38	1.32	2.81	6.27	5.86	4.33	
DIV.	1.00	1.00	1.00	.90	.90	.90	.90	1.25	1.50	3.00	2.50	*
Wkg Cap $ Mil	4.5	5.5	6.4	6.7	10.1	13.4	13.5	15.9	13.7	19.9	23.1	

COMMERCIAL CREDIT COMPANY OF BALTIMORE

BUSINESS: A leading finance company with long experience in the purchase of instalment paper and receivables, in factoring and in the operation of several insurance companies and manufacturing concerns.

OUTLOOK: The record boom in automobiles, combined with the increasing amount of appliances now purchased by consumers on time payments, continues to expand Commercial Credit's acquisition of instalment paper, as has been the case for several years past. In the first quarter of 1950, the company's finance subsidiaries acquired $431.5 million receivables compared with $419.8 million the year before, and net income from this source rose to $3 million from $1.7 million. Since earnings accumulate mainly from former acquisitions, an uptrend in net income is well assured later in the current year. Net income of the insurance division also advanced in the first quarter, rising to $1.6 million from $1.2 million in the related 1949 period. Although net sales of the manufacturing subsidiaries were about 7% smaller than in the first three months of last year, net earnings improved by an approximate 4.5%, attesting to efficient management. Total net earnings of the parent company in the first quarter amounted to $2.42 per share in contrast to $1.80 for the same span last year. Settlement of the Chrysler strike should enhance potentials for increasing acquisition of time paper as 1950 progresses, with corresponding benefit to earnings in due course. All of the company's preferred stock has been retired or converted into common, and to increase working capital, a new issue of $25 million non-convertible preferred has been planned.

DIVIDENDS: Shareholders have received dividends regularly since 1934 and prior to 1933 since 1913. The March, 1950 payment was at the rate of $1.20 quarterly, compared with 90 cents a year earlier.

MARKET ACTION: Recent price—65 compares with a 1950 range of high—65, low—57½. Based on the indicated dividends for 1950, the current yield is 7.3%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31, 1940	1949 (000 omitted)	Change
ASSETS			
Cash	$ 33,980	$ 56,941	+$ 22,961
Marketable Securities	....	69,311	+ 69,311
Inventories	....	6,576	+ 6,576
Total Receivables, Net	299,443	521,971	+ 222,528
Net Property	....	6,213	+ 6,213
Investments	4,995	40	— 4,955
Other Assets	1,597	7,873	+ 6,276
TOTAL ASSETS	$340,015	$668,925	+$328,910
LIABILITIES			
Accounts Payable	$ 8,207	$ 8,304	+$ 97
Accruals	3,816	11,271	+ 7,455
Accrued Taxes	....	18,167	+ 18,167
Unearned Premium	....	32,332	+ 32,332
Reserves	33,385	26,315	— 7,070
Other Liabilities	46	4,392	+ 4,346
Long Term Notes	30,000	174,500	+ 144,500
Short Term Notes	199,669	285,775	+ 86,106
Preferred Stock	12,194	24,984	+ 12,790
Common Stock	18,419	18,417	— 2
Surplus	34,279	64,468	+ 30,189
TOTAL LIABILITIES	$340,015	$668,925	+$328,910

THE FLINTKOTE COMPANY

BUSINESS: Flintkote's broadly diversified output of roofing, sidings and insulation products find extensive use in the construction and maintenance of homes and industrial buildings.

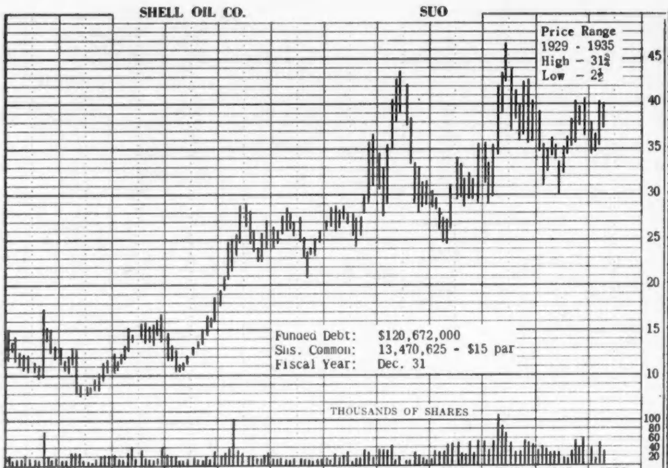
OUTLOOK: Continued high level activity by the construction industry is expected to maintain satisfactory sales for this strongly entrenched manufacturer, as it is in a position to supply a wide range of essential materials for all classes of buildings. The outlook is also good for sales of paving products for road construction, asphalt emulsions for floorings, and rubber compounds for the automotive, paper, textile, shoe and other leading industries. In the 12 weeks ended March 26, 1950, sales of $14 million compared with $12.8 million the year before, while earnings on the enlarged volume rose to 70 cents a share from 51 cents. The management appears confident that the current year will prove satisfactory. Prices for building materials early this year were quite soft but since then have developed an uptrend that will likely endure through the rest of 1950. In any event, there is little chance of any decline in prices that might tend to squeeze the company's margins. The company's financial status is exceptionally strong, with working capital of $23.1 million at the start of 1950 at an all-time peak, and with current assets of $30.8 million compared with current liabilities of only $7.6 million. Operations in the current year should benefit from outlays of more than $25 million in post-war for expansion and modernization of Flintkote's facilities, more than doubling the book value of these plants in the space of four years.

DIVIDENDS: For fifteen years past, dividends have been paid regularly, as well as in the 1927-30 period. Quarterly dividends are maintained at the rate of 50 cents a share, and a year-end extra of 50 cents paid last December may be repeated.

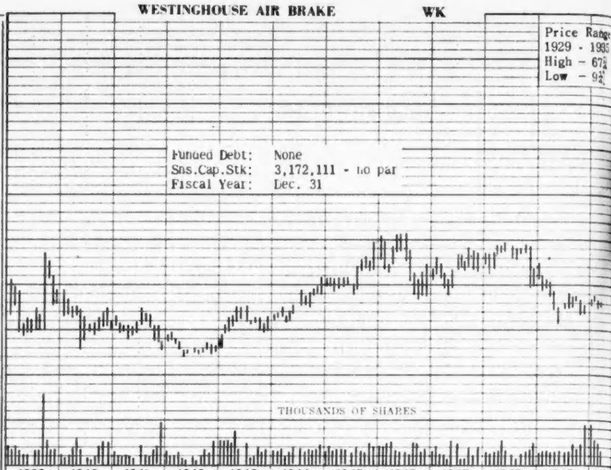
MARKET ACTION: Recent price — 30½ compares with a 1950 high of 33⅜ and a low of 29¼. Based on annual dividends of $2.50 a share, the yield is 8%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31, 1940	1949 (000 omitted)	Change
ASSETS			
Cash	$ 3,249	$ 8,482	+$ 5,233
Marketable Securities	....	10,707	+ 10,707
Receivables, Net	2,345	5,286	+ 2,941
Inventories	2,352	6,333	+ 3,981
TOTAL CURRENT ASSETS	7,946	30,808	+ 22,862
Plant and Equipment	12,770	45,735	+ 32,965
Less Depreciation	5,522	14,312	+ 8,790
Net Property	7,248	31,423	+ 24,175
Other Assets	171	1,970	+ 1,799
TOTAL ASSETS	$ 15,365	$ 64,201	+$ 48,836
LIABILITIES			
Accounts Payable	$ 1,374	$ 2,342	+$ 968
Accruals	481	1,134	+ 653
Accrued Taxes	561	4,137	+ 3,576
TOTAL CURRENT LIABILITIES	2,416	7,613	+ 5,197
Notes Payable	2,025	5,850	+ 3,825
Preferred Stock	....	9,665	+ 9,665
Common Stock	6,697	20,939	+ 14,242
Surplus	4,227	20,134	+ 15,907
TOTAL LIABILITIES	$ 15,365	$ 64,201	+$ 48,836
WORKING CAPITAL	$ 5,530	$ 23,195	+$ 17,665
CURRENT RATIO	3.2	4.0	+ .8



	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950
EARN.	.76	1.05	1.30	1.28	1.82	2.09	2.13	2.44	4.44	8.27	5.67	
DIV.	.50	.75	1.00	1.00	1.25	1.50	1.50	1.50	2.25	3.00	3.00	
Wkg Cap $ Mil	87.7	95.9	84.0	95.7	90.1	114.0	146.4	179.5	114.6	128.5	146.3	



	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949
EARN.	.87	1.76	1.91	1.33	1.42	1.68	1.30	3.06	4.22	5.00	3.14
DIV.	.62½	1.75	1.75	1.25	1.25	1.25	1.25	1.75	3.00	3.00	2.00
Wkg Cap $ Mil	32.1	31.9	31.5	32.9	34.4	35.6	39.4	45.2	49.0	54.9	58.1

SHELL OIL COMPANY

BUSINESS: As the American unit of the Royal Dutch-Shell group, this company ranks among the leaders in the domestic oil industry. Operations are fully integrated from production of crude oil to refining and nation-wide marketing.

OUTLOOK: In view of the rapidly expanding number of motor vehicles on the road and the increasing popularity of petroleum fuels for heating and generating power, this strongly entrenched concern should operate very satisfactorily in the current year. Prices for gasoline may stiffen in the near term because of rising demand and restricted supplies occasioned by voluntary and involuntary curbs on production of crude oil. Shell Oil's six large refineries also turn out substantial quantities of chemicals and various petroleum products, the demand for which should continue high in the current year of high-level industrial activity. In the past five years, capital expenditures have totaled more than $477 million, the fruits of which should become increasingly apparent. Evidence of this was shown last year when despite a marked downtrend in prices, the management reported the second highest earnings in its long history. Furthermore, very conservative accounting methods are used in computing earnings, since all intangible drilling costs are charged against income. Sales of $213.7 million in the first quarter of 1950 were about 4% higher than a year earlier and net earnings of $1.64 per share advanced from $1.59. Completion of large scale improvements should tend to widen margins on sales henceforth and perhaps stimulate an uptrend in net income. The company's proven reserves of crude oil are fully adequate to meet all requirements.

DIVIDENDS: Except in the early 1930s, payments have been made regularly since 1922. A quarterly dividend of 50 cents a share was paid on April 14 and should be easily maintained, if not liberalized before long now that capital needs are less pressing.

MARKET ACTION: Recent price — 43 in contrast to a 1950 range of high—44, low—34½. Based on total dividends of $3 per share in 1949, the current yield is 7%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31, 1940	December 31, 1949 (000 omitted)	Change
ASSETS			
Cash	$ 41,548	$ 48,319	+$ 6,771
Marketable Securities	16,243	24,737	+ 8,494
Receivable, Net	23,632	69,816	+ 46,184
Inventories	48,186	112,565	+ 64,379
TOTAL CURRENT ASSETS	129,609	255,437	+ 125,828
Plant and Equipment	640,484	1,055,257	+ 414,773
Less Depreciation	412,715	711,337	+ 298,622
Net Property	227,769	343,920	+ 116,151
Investments	17,252	36,159	+ 18,907
Other Assets	9,379	8,079	— 1,300
TOTAL ASSETS	$384,009	$643,595	+$259,586
LIABILITIES			
Accounts Payable	$ 15,386	$ 64,272	+$ 48,886
Accruals	4,523	9,446	+ 4,923
Accrued Taxes	13,725	35,331	+ 21,606
TOTAL CURRENT LIABILITIES	33,634	109,049	+ 75,415
Other Liabilities	1,151	....	— 1,151
Funded Debt	85,245	120,672	+ 35,427
Preferred Stock	33,123	....	— 33,123
Common Stock	196,059	202,059	+ 6,000
Surplus	34,797	211,815	+ 177,018
TOTAL LIABILITIES	$384,009	$643,595	+$259,586
WORKING CAPITAL	$ 95,975	$146,388	+$ 50,413
CURRENT RATIO	3.8	2.3	— 1.5

WESTINGHOUSE AIR BRAKE COMPANY

BUSINESS: Company normally produces about 75% of total air brake equipment purchased by American railroads, besides a long line of similar devices for trolleys, coaches and other vehicles.

OUTLOOK: Following a year of very abnormal recession in demand for new railroad cars, the business of this leading air brake manufacturer has started to pick up. Pressure is being brought on the railroads by Washington to order at least 86,000 new freight cars in the current year, and double the quantity in 1951 and 1952. Backlog orders of the car builders this year have mounted substantially and all of the units will require new brakes. Despite all handicaps faced by Westinghouse Air Brake last year, replacement sales and volume of parts plus items unrelated to rail equipment enabled the company to report total sales of $76 million, only 15% below the previous year. Net earnings of $3.14 per share compared with $5 in the more normal preceding year. In the first quarter of 1950, the business had not yet benefited from improved conditions now expressing themselves, and net earnings were undoubtedly at a low mark of 52 cents a share. Considerable improvement should follow in coming quarters. The company for decades has always maintained an impregnable financial position, and as of December 31, 1949, reported current assets of $72.6 million compared with total current liabilities of $14.5 million. $50 million holdings of cash and government bonds alone exceeded current debts by a margin of better than three for one. Common stock represents the sole capitalization, as neither preferred stock nor funded debts appear on the balance sheet.

DIVIDENDS: The unbroken dividend record since 1875 is one of the longest, and despite yearly fluctuations in earnings should be comfortably continued because of the company's strong finances. Quarterly distributions of 50 cents a share seem secure.

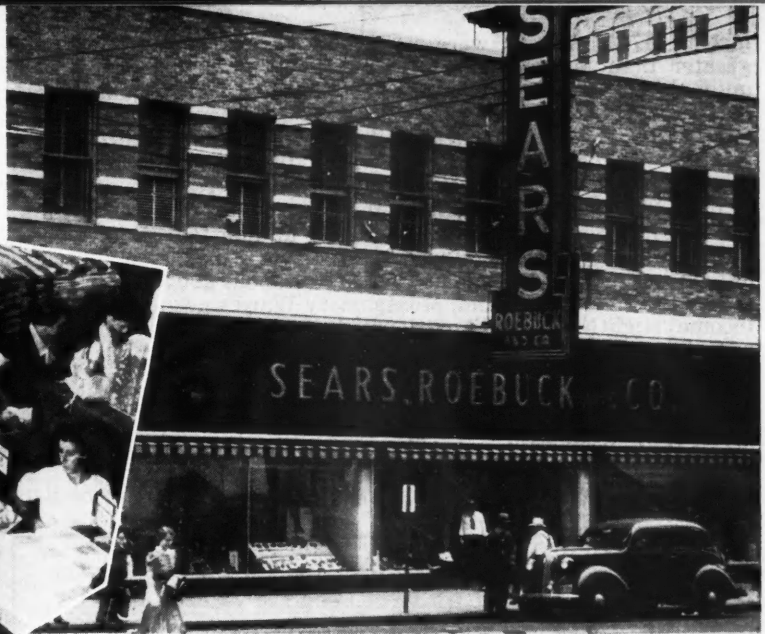
MARKET ACTION: Recent price — 25½ compares with a 1950 high of 27¾ and a low of 24⅞. The indicated current yield is 7.7%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31, 1940	December 31, 1949 (000 omitted)	Change
ASSETS			
Cash	$ 15,341	$ 8,492	—$ 6,849
Marketable Securities	7,316	41,743	+ 34,427
Receivables, Net	5,762	6,111	+ 349
Inventories	10,385	16,287	+ 5,902
TOTAL CURRENT ASSETS	38,804	72,633	+ 33,829
Plant and Equipment	20,377	22,655	+ 2,278
Less Depreciation	10,485	13,285	+ 2,800
Net Property	9,892	9,370	— 522
Investments	5,461	4,451	— 1,010
Other Assets	2,672	627	— 2,045
TOTAL ASSETS	$ 56,829	$ 87,081	+$ 30,252
LIABILITIES			
Accounts Payable	$ 1,254	$ 2,281	+$ 1,027
Accruals	1,279	12,171	+ 10,892
Accrued Taxes	4,368	....	— 4,368
TOTAL CURRENT LIABILITIES	6,901	14,452	+ 7,551
Reserves	1,679	3,578	+ 1,899
Other Liabilities	73	26	— 47
Capital Stock	34,893	34,893	— ....
Surplus	13,283	34,132	+ 20,849
TOTAL LIABILITIES	$ 56,829	$ 87,081	+$ 30,252
WORKING CAPITAL	$ 31,903	$ 58,181	+$ 26,278
CURRENT RATIO	5.6	5.0	— .6

— SEARS ROEBUCK

— MONTGOMERY WARD



Photos by Ewing Galloway

Comparative Analysis of The Two Great Mail Order Companies

By STANLEY DEVLIN

Topsy-turvy political and economic conditions have posed knotty problems for businessmen since the war. Inflationary forces, accompanied by wide fluctuations in commodity prices, have been particularly hazardous for merchandisers accustomed to having substantial investments in inventories. A comparison of Sears, Roebuck & Company with Montgomery Ward & Company in the light of recent experience is especially interesting because the two managements have followed divergent policies.

Although hindsight is far more dependable than foresight, as the old proverb says, a comparison of these leading mail order concerns raises the question as to whether the Montgomery Ward management, under direction of Mr. Sewell Avery, Chairman, has gained full realization of its opportunities. Somehow the record of aggressive expansionism contrasted with extreme conservatism reminds one of the Biblical parable of the talents. It is not too difficult to draw a parallel between Montgomery Ward and the servant who, having received one talent, "went and digged in the earth, and hid his lord's money."

There is no intention in this discussion to compare personalities, of course. Moreover, the post-war readjustment has by no means run its course, and who is to say at this stage whether conservatism may not have been the proper attitude in the long run? Only a cold analysis of statistical data is contemplated here in an effort to shed light on actual as well as potential values of the two stocks under survey. Nor will there be any attempt to draw specific conclusions. It is possible, of course, to demonstrate that one stock is intrinsically more fully appraised than the other; it is possible also to show that one company has greater potentialities of growth than the other. It is impossible, on the other hand, to say positively that such growth is assured.

While this is not the place for dealing in personalities, it is only fair to say that Montgomery Ward is a "one-man management" in that policies are determined by Mr. Avery, whereas Sears Roebuck is a "team" organization with responsibilities assigned to various officers who report to the president and the board of directors. Records are inadequate to prove which of these two contrasting forms of corporate management is the more effective. In some instances, one-man concerns have established enviable records of progress by enjoying freedom of immediate action. Such companies generally are considered vulnerable to possible loss of a vital driving force.

The Long Term Record

Turning now to experiences of the two companies over the last decade, covering the war years and subsequent readjustment to peacetime conditions, let us examine records of sales, earnings, dividends, working capital and other financial data. Relevant information has been compiled in the accompanying tabulation for ready reference. Charts of price fluctuations also are shown so that one may compare the public's appraisal of market prospects over recent years. Incidentally, the charts indicate that investors have adopted a more cautious attitude toward Montgomery Ward than Sears, for the former's shares have not yet recovered to the peaks of 1947 and 1948, whereas at around recent levels, Sears had advanced to the best figure since 1946.

The effect on sales of contrasting expansion policies is readily discerned. Whereas Sears' sales for the fiscal year ending January 31, 1941, approxi-

mating $704 million, were not quite 40 percent greater than Montgomery Ward's volume of $516 million, last year the advantage was almost exactly 100 percent. In short, Sears has upped its shipments almost 200 percent to $2,169 million, while Montgomery Ward's volume had grown in the decade barely more than 100 percent at $1,084 million. Net income followed approximately the same pattern. Earnings of Sears rose from about $36 million for the fiscal year ended January 31, 1941, to $108.2 million in the latest period, an increase of about 200 percent. On the other hand, Montgomery Ward's net income slightly more than doubled in the same period in rising from $23 million to $47.8 million.

Unfortunately for the reader, discussions of this kind are so interspersed with statistics that they are apt to become tiresome. Comparisons of price-earnings ratios, book values, profit margins, inventory turnover, etc., are meaningless, however, except through the use of actual figures and percentages. Accordingly, even though round numbers be used wherever possible, it will be necessary to present numerous data to bring out the similarities or difference in these two companies. Statistics on capitalization, prices of shares, etc., are shown elsewhere, and reference may be made to these compilations in subsquent comparisons.

Bearning in mind that Ward, with slightly more than one-fourth the number of common shares, is selling currently 14 or 15 points higher, let us review a few earnings and dividend records. Taking first per share earnings, here is a quick survey (fiscal years ended January):

	Sears	Ward
1949	$4.58	$ 7.13
1948	5.80	10.28
5-year average	4.14	7.64
10-year average	2.82	5.96

Here it may be seen that Ward's earning power currently is more modestly appraised than that of Sears. This is brought out more strikingly in the following comparison of price-earnings ratios:

	Sears	Ward
1949	10.0	8.4
1948	7.6	5.0
5-year average	11.0	7.8
10-year average	16.0	9.9

The fact that Sears, around recent levels, was selling at about ten times last year's earnings, while Ward commanded a price only 8.4 times 1949 earnings suggests investor preference for the former. Whether or not this mass opinion is influenced by management problems that came out into the open a year or so ago, when several officers and directors of the Ward company resigned, is anyone's guess. One must draw his own conclusions in that regard.

Comparative Statistical Summary

	Montgomery Ward	Sears Roebuck
CAPITALIZATION: As of	1/31/50	1/31/50
Class "A" Stock (number of shares)	201,544	....
Common Stock (number of shares)	6,502,378	23,646,513
Number of Retail Stores (1949)	621	654
Number of Mail Order Plants (1949)	9	11
Number of Order Offices (1949)	259	358
INCOME ACCOUNT: For Year Ended	1/31/50	1/31/50
Net Sales (000 omitted)	$1,084,436	$2,168,928
Net Sales Per Share	$ 166.77	$ 91.72
Operating Earnings (000 omitted)	$ 80,799	$ 194,290
Operating Margin	7.4%	8.9%
Net Income (000 omitted)	$ 47,787	$ 108,206
Net Profit Margin	4.4%	4.9%
Net Per Share	$ 7.13	$ 4.58
INTERIM REPORTS: For Period of	3 mos. end. 4/30/50	3 mos. end. 4/30/50
Net Sales (000 omitted)	$ 244,194	$ 521,972
Pre-Tax Margin	5.9%	....
Net Income (000 omitted)	$ 9,458	....
Net Profit Margin	3.8%	....
Net Per Share	$ 1.40	....
EARNINGS & DIVIDEND RECORD (per share)		
10 Year Average Earnings 1940-49	$ 5.96	$ 2.82
1948 Dividend	$ 3.00	$ 2.25
1949 Dividend	$ 3.00	$ 2.25
10 Year Average Dividend 1940-49	$ 2.40	$ 1.43
BALANCE SHEET ITEMS (000 omitted): As of	1/31/50	1/31/50
Cash or Equivalent	$ 130,214	$ 194,954
Cash Assets as % of Current Assets	23.6%	32.2%
Inventories	$ 227,210	$ 321,396
Inventories as % of Current Assets	41.2%	53.1%
Total Current Assets	$ 550,679	$ 605,286
Total Current Liabilities	$ 94,185	$ 193,740
Net Working Capital	$ 456,494	$ 411,546
Current Ratio	5.8	3.1
Total Assets	$ 589,085	$ 808,456
Book Value Per Share	$ 73.01	$ 26.00
Net Current Assets Per Share*	$ 67.09	$ 17.40
Recent Price of Common	58⅜	44¼
Dividend Yield (on 1949 Dividends)	5.1%	5.0%
Price-Earnings Ratio (to 1949 Net)	8.1	9.6

(*)—After deducting senior securities.
(E)—Estimated.

Dividend Comparisons

Perhaps an evident higher regard for Sears is caused by the prospect of more rapid price appreciation over a period of time or by likelihood of a more generous dividend return. Here again, comparison of past performances discloses more satisfactory progress on part of the larger company. Consider dividends in recent years:

	Sears	Ward
1949	$2.25	$3.00
1948	2.25	3.00
5-year average	1.61	2.80
10-year average	1.43	2.40

Now observe that the figures suggest Sears management favors disbursement of a greater proportion of earnings than Ward:

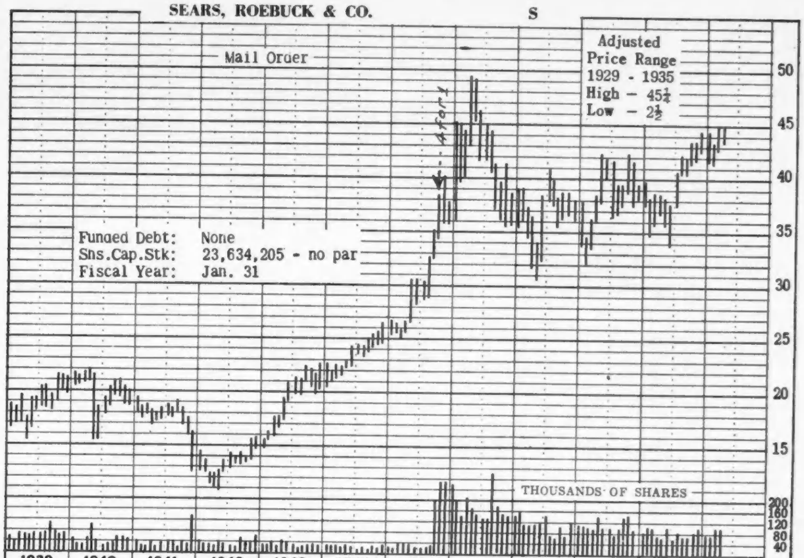
	Sears	Ward
1949	50.0%	42.7%
1948	38.8	29.9
5-year average	47.4	41.9
10-year average	47.4	41.9

As for yields, there is little to choose. Sears, for example, affords a yield of 5 percent on last year's $2.25 dividend, while Ward yields a trifle more on the indicated $3 annual rate (including a customary year-end extra of $1 a share). Over the last five years, the average dividend on Sears of $1.61 a share would yield 3.6 percent at current prices and on the same basis Ward's return would be 4.7 percent. On average dividend payments for the last decade, the stocks at today's prices would afford yields of about 3.1 percent and 4.3 percent, respectively.

In the matter of intrinsic values, Ward appears to hold an advantage. Conservation of earnings has enlarged book values with the result that Ward's asset value has increased to well above market quotation. To be specific, book value of Sears at the last year-end stood at $26 a share, compared with about $12 a share ten years earlier. Ward's book value amounted to $73.01 at the end of January, against $36.38 ten years ago. Thus, while appreciation in book value was slightly greater percentagewise in case of Sears, the latter's stock currently is priced not far from double book value, while Ward's market evaluation is some 17 percent below book value.

Now what about sales policies and their effect on earnings as well as growth in assets? Sears showed operating income last year of 9.1 percent of sales, compared with 11 percent in the previous year. In like manner, Ward's operating income was only 7.8 percent last year and 9.7 percent the year before. Net income of the larger company came to 4.99 percent of sales in 1949, against 5.98 percent in 1948, whereas Ward showed 4.41 percent and 5.63 percent, respectively. These comparisons, supported by inventory turnover results, suggest greater merchandising efficiency in the case of Sears. Inventory turnover by Sears has averaged about six times a year in recent years, whereas Ward's record has been only about 4.5 times annually. Last year the comparison favored Sears by 6.7 times against 4.8 times.

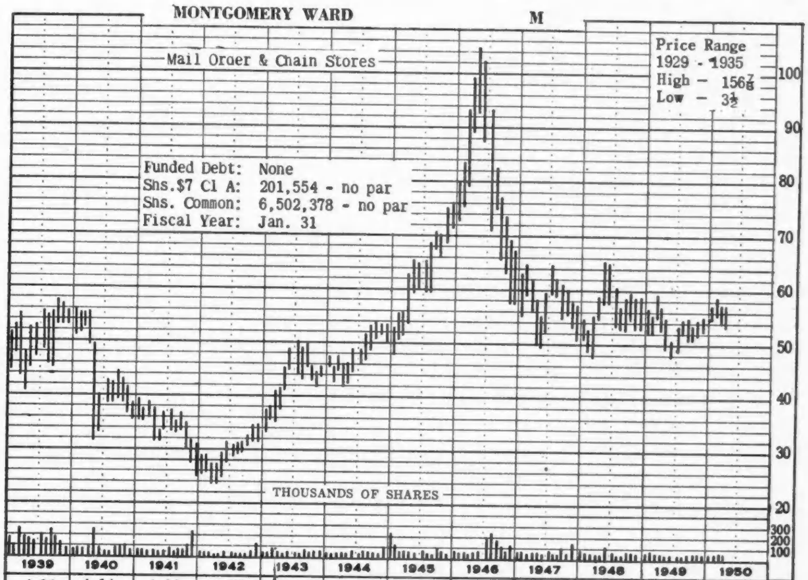
Apparent greater merchandising effectiveness finds reflection in a higher return on invested capital. Over the last five years, Sears has shown a return of about 18 percent on invested capital and over the ten-year period it has been about 15 percent, whereas for Ward the average has approximated 11 percent. This evidence of progress may be attributed primarily to the fact that Sears has enlarged and modernized its selling organization.



	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950
EARN.	1.65	1.58	1.58	1.46	1.45	1.45	1.52	4.24	4.56	5.80	4.58	
DIV.	1.06	1.06	1.06	1.06	1.06	1.06	1.00	1.75	1.75	2.25	2.25	
Wkg Cap $ Mil	164.2	171.8	183.8	196.0	216.7	227.2	256.2	295.0	330.7	375.7	397.8	

Relatively better results have been achieved through store modernization programs. Although large sums have been expended in extending store operations, sales have grown at a proportionately higher rate. Hence, the figures indicate that growth has not been attained at the expense of operating efficiency. The more rapid inventory turnover obtained by Sears has helped minimize risks and has lowered distribution costs.

Summarizing these comparisons, it may be noted that Sears has done more with available working capital than its competitor. Examination discloses that last year Sears had sales volume slightly more than five times working capital — the latter was about 19 percent of sales. (*Please turn to page* 288)



	1939	1940	1941	1942	1943	1944	1945	1946	1947	1948	1949	1950
EARN.	4.91	4.14	4.01	3.65	3.69	3.81	4.13	6.29	8.86	10.28	7.13	
DIV.	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	3.00	3.00	3.00	
Wkg Cap $ Mil	136.5	148.8	163.4	200.3	212.0	222.0	240.6	333.1	366.6	412.9	441.5	

. . . . Recent . . . .
Dividend Increases
—How Dependable?

By GEORGE W. MATHIS

The heartening upsurge in confidence over economic conditions during 1950 was in no small degree responsible for quite a flood of increased dividend announcements. On an over-all basis, cash dividends in the first quarter were 9.8% higher than in the corresponding period the year before, thus getting the current year off to an unusually encouraging start.

Numerically, however, many if not more concerns cut, deferred or eliminated payments than in the same 1949 quarter, indicating that numerous enterprises either had not surmounted their last year's readjustment problems or, under the impact of intensified competition, recognized that their earnings in the medium term no longer would warrant dividends at a former boom rate.

In the circumstances, it seems timely and pertinent to examine rather carefully the circumstances that prompted many leading managements to express increased dividend liberality at the beginning of a year that admittedly had numerous uncertainties clouding the second half and beyond. The question naturally arises whether current high earnings or ample dividend coverage will endure for long in some cases, or if the increased rates may likely prove to be short-lived. To aid our readers, we have carefully studied a number of situations in which they may be interested, and present our comments herewith.

The action of Acme Steel Company in declaring an interim dividend of 40 cents per share payable June 12, compared with 35 cents in the March quarter, reflected confidence in the intermediate outlook as well as in immediate conditions. Sales of $16 million in the first three months were almost double those in the December quarter, when the steel strike hampered operations. Net earnings rose even more sharply to 81 cents a share from 23 cents.

Compared with the March period a year earlier, volume rose about 10% and net earnings were up 22%. The lift in the dividend rate, however, should be considered less as an advance than as a restoration to the level that prevailed in the third quarter of last year, when 40 cents a share was also paid, an initial payment following a 2-1 stock split in midsummer. Prior to then, the rate (adjusted) had been 50 cents a share, thus the recent advance did not fully restore payments to the level of the first half of 1949, and there is still room for improvement.

Considering the fine record of this producer of steel sheets and numerous fabricated specialties, including an unbroken dividend history since 1901 and uniformly profitable operations even in a depression year like 1932, there seems small doubt as to the continuity of distributions at the recently improved rate or better. The earnings record attests to exceptionally well controlled costs and a strong position in the trade.

With sales in the first quarter at the rate of $64 million annually and conditions in the industry now very bright, it is possible that net earnings this year may exceed $3 per share compared with $1.91 in 1949. As the company has no further adjustments to make, and ample finances have consistently permitted liberal dividends, the current dividend rate seems unquestionably secure. This belief is strengthened by the fact that no senior securities precede the one class common stock.

Maytag Company

A sharp spurt in volume and earnings of Maytag Company in the first quarter compared with the year before, combined with strong prospects for good business in 1950, influenced the directors to raise the quarterly dividend rate recently to 35 cents a share from 25 cents. As earnings have averaged about $4 a share for the last three years and the financing of plant improvements no longer induces dividend conservatism, it seems logical that higher dividends should be paid, at least until the business climate starts to deteriorate.

Maytag, however, has benefitted substantially from the postwar boom, with annual volume rising about fourfold from levels prior to 1944. Its earnings record for many years before the war was mediocre and marked with occasional deficits, while between 1931 and 1946, the company paid dividends

in only three years. In postwar, the annual rate has been increased from 25 cents in 1946 to $1.25 in 1949, with an indicated $1.40 in the current year. To judge from net earnings of $1.68 a share in the first quarter, dividend coverage should be very wide.

By retaining a substantial portion of high earnings in recent years, Maytag, a leading producer of washing machines, gas ranges, ironers, etc., has carried out a sizable expansion program without recourse to borrowing, and lately retired all of its outstanding 6% first preferred stock. Through a good dealer organization, it had sold more than 6 million washers by the end of last year. As long as the national income remains at a high level and new home building continues, the company's earnings should comfortably support dividends at the increased rate, although competition in this field has become increasingly severe.

Other Factors Entering Dividend Decisions

In the case of many companies, an advance in recent earnings has not been wholly accountable for improved dividend liberality. This has been true particularly with some oil companies which in postwar had paid ultra-conservative dividends in relation to net earnings. As a sample, take Atlantic Refining Company that recently raised the quarterly dividend from 50 cents a share to 75 cents. For the last two years this strong concern has paid only $2 a share annually, although its earnings in 1948 were $12.68 and in 1949, $9.51 per share. In the first quarter of 1950, despite a 6% decline in volume from the related 1949 period, net earnings of $3.09 per share compared with $2.73.

Further Improvement Possible

In other words the advanced dividend was hardly more than a token to shareholders, as the new indicated rate for all of 1950 was fully earned in the first three months. Assurance of stable dividends, accordingly, is certain at the higher rate, and further improvement may follow within a reasonable time, in proportion to lessened needs for capital expenditures.

Following a 1½ to 1 split-up of its common shares, Proctor & Gamble Company paid an interim dividend of 65 cents per share in May against an equivalent of 50 cents in the preceding quarter. In the past two fiscal years ended June 30, the company had to contend with (*Please turn to page* 283)

Companies Which Have Recently Increased Their Dividends

	Net Sales 1949 ($ millions)	Net Sales 1948 ($ millions)	Operating Margins 1949 %	Operating Margins 1948 %	Net Per Share 1949	Net Per Share 1948	Net Per Share 1st Quarter 1950	Div. Per Share 1949	Interim Payments Raised From	Interim Payments Raised To	Recent Price	Yield† %
Acme Steel	$50.2	$60.3	12.0%	19.1%	$1.91	$3.68	$ .81	$1.75	$ .35 Q	$ .40 Q	23⅜	7.5%
Armco Steel	341.3	382.5	13.2	13.6	7.68	7.96	2.98	2.50	.625 Q	.75	36¾	6.7
Armstrong Cork	163.3	173.0	10.1	10.3	6.57	7.54		3.00	.50 Q	.65	51¾	5.8
Atlantic Refining	446.4	435.1	9.7	12.5	9.51	12.68	3.09	2.00	.50	.75	53⅜	3.7
Avco Mfg. Corp.	137.3	140.5	4.5	10.2	.54	1.11	.15	.30	.15(l)	.20(l)	8	3.7
Bethlehem Steel	1,266.8	1,312.5	13.1	11.4	9.68	9.36	2.50	2.40	.60 Q	.75	36¾	6.5
Bliss & Laughlin	17.0	18.3	8.6	11.4	2.03	2.30	.78	1.50	.25	.30	15¾	9.5
Brown Shoe	80.3(a)	84.4(a)	5.2	5.3	4.84	4.87		2.10	.40	.50	39	5.3
Continental Steel	22.5	29.7	7.6	9.1	1.27	3.24	1.68	1.75	.25 Q	.35 Q	19½	8.9
Crown Zellerbach	168.2(b)	153.3(b)	20.5	20.0	6.85	6.81	4.49(c)	2.00	.40	.50	34⅜	5.8
Dow Chemical	200.3(e)	170.6(e)	21.1	19.3	4.44	3.72	4.00(f)	1.30	.40	.60	70⅛	1.8
DuPont	1,031.9	977.8	23.7	20.1	4.52	3.28	1.15	3.40	.75	.85	77⅜	4.3
Hershey Chocolate	142.1	168.5	17.3	11.2	6.22	2.98	1.83	2.25	.375	.50 Q	46½	4.8
Johns-Manville	162.5	173.4	13.6	14.4	4.83	5.22	1.29	2.50	.50	.60	51	4.9
Keystone Steel & Wire	34.8	33.1	13.2	16.8	2.00	2.30	2.69	1.00	.25 Q	.40 Q	25⅜	3.9
Maytag Co.	58.0	68.5	20.1	19.0	3.99	4.44	1.68	1.25	.25 Q	.35 Q	17½	7.1
Minneapolis-Honey. Reg.	72.7	57.6	18.6	16.6	6.05	4.49	.92	2.625	.31	.40	39⅝	6.6
National Steel	424.8	436.5	18.3	16.5	5.34	5.45	1.82	1.83	.50	.60	37⅜	4.9
Pennsylvania Salt	33.1	32.4	11.8	9.5	3.30	2.78	1.18	1.80	.30	.40	49½	3.6
Philip Morris & Co.	255.7(g)	228.3(g)	10.6	9.7	7.26(g)	5.84(g)		2.875	.50 Q	.75 Q	53½	5.3
Procter & Gamble	696.6(h)	723.6(h)	6.4	14.9	7.72(i)	6.59(i)	5.08(j)	2.66	.50 Q	.65 Q	65⅛	4.1
Pure Oil	263.3	281.3	11.9	19.1	6.22	9.91		2.00	.25 Q	.50 Q	34¼	5.8
Republic Steel	656.8	772.0	12.2	10.1	7.54	7.61	2.75	3.00	.50	.75	33½	8.9
Rohm & Haas	62.4	62.4	13.2	12.6	6.09	5.26	2.06	1.00(k)	.25 Q	.40 Q	83½	1.2
Scott Paper	83.9	73.5	11.3	8.5	6.07	4.15	1.87	2.625	.75 Q	.90 Q	93	2.8
Simonds Saw & Steel	22.5	30.4	14.1	21.1	3.45	6.69	1.63	2.60	.50	.70	32	8.1
Squibb, E. R., & Sons	82.2(h)	73.4(h)	15.2	8.4	3.93	1.94	2.71(j)	1.25	.25 Q	.40 Q	37	3.4
Thompson Products	107.6	96.9	9.0	8.3	12.88	9.57	3.67	3.00	.50	.75	52⅜	5.7
United Fruit	N.A.	N.A.	N.A.	N.A.	6.25	6.81		4.00	.50	.75	62¾	6.3
Van Raalte	25.7	24.7	12.6	13.8	5.06	5.48	2.08	2.50	.50	.65	32	7.8

†—Based on 1949 dividends.
(a)—Year ended October 31.
(b)—Year ended April 30.
(c)—9 months January 31, 1950.
(e)—Year ended May 31.
(f)—9 months February 28, 1950.
(g)—Years ended March 31, 1950 and 1949 respectively.
(h)—Year ended June 30.
(i)—After inventory reserve adjustment.
(j)—9 months ended March 31, 1950.
(k)—Plus stock.
(l)—Semi-annual payment.

Interpreting . . . .

The Significance of New Foreign Developments

By V. L. HOROTH

Franco-German Coal and Steel Pool

If and when it is accepted and fully carried out, and that may take some time, the bold proposal made by France earlier this month for the pooling of French and German coal and steel production may easily become one of the great postwar milestones. Essentially the French, always realistic, recognized that they are only a minor power, and that Western Europe can be saved from becoming another battlefield only by joining forces with other Western Europeans.

Hence the real significance of the French proposal lies not in the fact that it may create a supranational cartel, but that (1) it may combine Western Continental Europe into a "third force" which ultimately may be strong enough to avoid taking sides in the struggle between the United States and the Soviet Union, and that (2) by healing the old Franco-German feud, it may pacify the whole Western Europe for good. At any rate, Western Germany will be definitely tied to Western Europe.

The plan still faces political hurdles in both French and German parliaments. Since the Saar coal will be going into the common pool, a good deal of the sting is taken out of the Saar deal which antagonized the Germans considerably. At this stage, insofar as one can see, the advantages to France of the plan may be these: any future expansion of steel production is likely to be within the territory of the French partner, since the ceiling on German steel production will be continued.

Presumably, French steel will then be shipped to German factories for further processing and conversion into machinery and equipment. The expansion of French steel production will make the French less jittery about the German industrial comeback; it will also give them first hand knowledge about how much steel the Germans are consuming and what they are doing with it. Some French coal mines and high cost machinery and equipment-producing plants may close. But French industry will get cheaper coal, and French agriculture will get more and cheaper equipment which should help to make it more productive.

What will the Germans gain? Above all, they will get freer access to French colonial as well as French metropolitan markets. This may asure them a certain level of employment, and possibly cheaper raw materials and foodstuffs. If the Franco-German cooperation means a more immediate exploitation of natural resources in the French African possessions, then the benefits of the proposed plan may prove far reaching for all the Western Europeans.

Instability in the Philippines

Recently some $64 million were set aside to put a halt to the deteriorating economic and political situation in several countries of Southeastern Asia. Anybody who thinks that this will do the trick should ponder our postwar experience in the Philippine Islands. Here was a country politically and economically far more advanced than her Far Eastern neighbors. We gave her full sovereignty, absolute military guarantee against outside aggression, and huge financial assistance. Between the end of the war and the end of 1950, the expenditure of our Army and Navy for local services and materials, veterans' benefits, damage compensations, and other programs will have resulted in our spending some $2 billion in the Islands.

The principal postwar tasks in the Islands have consisted of the repair of war damage, the straightening out of finances, the checking of inflation, the restoration of the production of principal export commodities and, above all, the diversification of the Philippine economy so that the Islands would be able to stand on their own feet when the free trade period ends in 1954.

Extent of Reconstruction

What has actually happened? Some damage was repaired, and the production of sugar and coconut oil expanded above prewar levels. Manila is a more modern and handsome city than she was in 1940. But that is about all that can be said. The Governments of Presidents Roxas and Quirino have been weak, manned by inexperienced people and playing politics. A good deal of the rehabilitation money has been permitted to become mere pocket money to be spent for luxuries, automobiles, and unessentials.

Instead of dealing firmly with the communist-led rebellious farmers, known as the Huks, and removing some of the causes of their dissatisfaction such as absentee landlordism and high land rents, Manila has let the Huks spread through the Islands and make business unsafe. Prospective foreign investors have been discouraged for some time. Now apparently even the Philippine owners of capital are getting discouraged and a flight of capital is in full swing despite drastic exchange controls.

After claiming that the United States is to blame for some of the ills by not giving it control over all U. S. expenditures, Manila wants more money and the extension of the free trade period for at least 25 years for certain commodities. Meanwhile nothing is being done to win the confidence of the local investor, let alone the foreign one.

Nationalist South Africa — A Chronic Dissenter

Like the French Canadians, the Dutch-speaking nationalistic Afrikaners, who have a tottering majority of eight in the present parliament, seem to be at odds with everybody else. The United States is in disfavor because of our opposition to even discussing a world-wide upvaluation of gold. Otherwise, it is usually the International Fund that comes in for a tongue-lashing. The latest blast, terming the Fund's policy as "ineffective" and "largely discredited," was administered by the Nationalist Minister of Finance, Mr. Havenga, only a few weeks ago after the Fund rejected the South African proposal — under consideration since last Fall — that half of the newly mined gold be disposed of in premium markets. According to Mr. Havenga, despite the Fund's efforts "one-half of the world's gold production outside of Russia failed to reach the central reserves of governments in 1948 and 1949." This would mean that at least $700 million of gold disappeared into private hoards in those two years.

But Mr. Havenga's protest was really an empty gesture. With the price of gold averaging around $39 an ounce in most of the leading premium markets, it will not be profitable for very long for South Africa to process and ship gold to free markets. Her mining costs are increasing steadily, and "the period of breathing space" provided by the devaluation of the pound sterling may be shorter than is generally believed.

Meanwhile, though the foreign exchange holdings have improved somewhat since the devaluation, there is not much hope for any extensive liberalization of imports from the United States. Inflation continues to be a problem, and labor troubles are on the increase. To distract attention from economic difficulties, the Nationalist Malan Government has been playing up its accomplishment in preserving South Africa as a "white" country. This policy of preserving a racialist static society has not only split the whites and alienated the natives, but is playing into the hands of communist agitators, endangering the Point Four Program, and weakening the European position in Africa in general.

Cold War Danger Brings Argentina and the United States Closer

The cold war strategy necessitating the closing of ranks on the part of all non-communist countries has been probably the primary reason for Argentina and the United States finally getting together and attempting to restore more normal trade relations. President Peron promised to remove the club held over American interests in Argentina, and we agreed to bail out the exporters by means of an Export-Import Bank loan for $125 million—pardon —"credit," since President Peron had foresworn to contract a loan here. The credit does not cover all the arrears accumulated in Argentina, estimated at about $155 million. The formula for remitting the commercial arrears, profits, royalties, and dividends is to be announced shortly.

The funding of old obligations — the credit is repayable over a ten-year period starting in 1954 — will permit some increase in Argentine purchases in this country. Priority number one goes to tractors, and to agricultural machinery in general. Argentine agriculture, the Argentine farmer, has been the chief victim of Peron's ill-conceived policy of quick industrialization and of the vicious Government policy of buying up (*Please turn to page* 282)

Photo by Assoc. Press

The proposed integration of the Franco-German steel and coal industries may well prove an important milestone in European history

FOR

PROFIT AND INCOME

Constant

Expressed in percentage return, rather than dollars, average dividend yields are a better measure to use in comparing market highs than any average or index, for they are not distorted by the dollar's depreciation. At the 1949 low, the yield on the Dow industrial average was a little over 7.9%, calculated on the basis of full-year dividends as later revealed, and adjusted in the same way the average itself is constructed. This yield is now about 5.9%, on the basis of estimated 1950 dividends. At the market's previous major tops of modern times it was as follows: 1929, 3.31%; 1937, 3.71% and 1946, 3.30%. Judged by this realistic criterion, the market is still in "moderate" ground.

Inflation

Everybody knows that the dollar is worth about 60 cents in purchasing value compared with prewar. Nobody, except those wholly or mainly dependent on fixed incomes, desires a restoration of any material part of the "lost" purchasing value; for that could only be effected through a painful deflation. The full power of the Government is directed at keeping the dollar's value far below prewar and not materially greater than it now is. To the extent that Government policy is effective, the long-run threat is that still more purchasing value may be clipped out of the dollar. All of this has some bearing on the stock market, especially in comparing stock prices with those of past periods. At this writing the Dow-Jones industrial average has risen just above 222 to the highest level since 1930. The 1929 high was 381.17, the 1937 high was 194.40, and the 1946 high was 212.50. So the market appears to be at a high level, unless you remember that there is an optical illusion involved; for the figures cited are dollar figures, and today's dollar is not the dollar of 1929, or 1937 or even of 1946. Measured in dollars of average 1935-1939 purchasing power, the levels heretofore cited become: about 133 at present, versus highs of 153 in 1946, 189 in 1937 and 311 in 1929.

Screwy

As we have pointed out before, the Dow industrial average, made up of 30 prominent stocks, is a reasonably satisfactory measure of day-to-day, or even year-to-year, fluctuation in prices of "quality" stocks. The defects inherent in the construction of this average, and in the method of adjustment for stock splits, result in serious distortion only on longer-term comparisons. Thus, the average is of dubious usefulness in comparing the present market level with that of 1929, regardless of the difference in the value of the dollar. The same distortion appears in the calculation of earnings and dividends on the average by Barron's. The record referred to puts 1929 earnings on the average at $19.94 a share; and those of 1949 at $23.54, a gain of roughly 18%, whereas total corporate earnings last year were about double those of 1929. It put dividends applicable to the average at $12.75 in 1929 and

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1950	1949
Bendix Aviation	March 31, Quarter	$1.69	$ .96
Reynolds Spring Co.	March 31, Quarter	.52	.20
Caterpillar Tractor	4 months April 30	2.58	1.58
Du Mont (Allen B.) Labs.	12 weeks March 26	.92	.70
Goodrich, B. F., Co.	March 31 Quarter	3.69	2.45
United Carbon	March 31 Quarter	1.04	.91
Bell Aircraft	March 31 Quarter	.41	.12
Celanese Corp. of America	March 31 Quarter	1.77	.95
Johnson & Johnson	March 31 Quarter	1.51	1.28
Otis Elevator	March 31 Quarter	1.84	1.67
Philco Corp.	March 31 Quarter	2.37	.49

$12.79 last year, or virtually no change; yet total dividends in 1949 were roughly 45% greater than in 1929. Actual 1949 earnings on the 30 stocks—not multiplied to "fit" the average—averaged $7.08 a share, compared with about $4.35 in 1929, a gain of roughly 63%. Actual dividends averaged $3.60, against about $2.30 in 1929, a gain of around 57%.

Dividends

Compared with 1935-1939, total dividends have increased by slightly more than enough to offset the depreciation in the value of the dollar. In other words, "real" dividends have risen only a little, with results varying enormously from company to company. Long-term investors have lost something in "real" income from dividends, just as they have in "real" income from bonds, in instances where it has been beyond the power, or ability, of managements to increase payments to shareholders by at least enough to balance the depreciation of the dollar. Stocks in the Dow industrial average which last year carried dividends about the same as, or lower than, in 1929, include American Can, American Tobacco, Corn Products, General Foods, U. S. Steel and Woolworth. Some whose current dividends put long-term shareholders well ahead of the game, so far as the depreciation of the dollar is concerned, include Chrysler, duPont, General Motors, International Harvester, Johns-Manville, National Steel, Procter & Gamble, Sears Roebuck, Standard Oil (New Jersey), and Union Carbide.

Assets

This column is not too impressed with "book values," but it is valid to cite increases therein, as well as in earnings and dividends, in comparing stock prices over a period of time. The industrial list as a whole is well under the 1946 high, while earnings, dividends and book values have risen greatly. It might be of interest to cite some of the latter, taken at random. The first figure will be book value shown by latest balance sheets, the second the 1946 book value: Goodrich, $124.68 vs. $80.04; General Electric, $23.61 vs. $14.51; General Motors, $39.58 vs. $24.51; Chrysler, $54.15 vs. $32.51; Bethlehem Steel, $69.88 vs. $57.39; National Steel, $99.56 vs. $79.90; Sears, Roebuck, $26 vs. $17.31; Montgomery Ward, $70.01 vs. $56.27; Studebaker, $33.06 vs. $17.25.

Seasonal

The July or August high of the Dow industrial average has been above the close as of the end of May in 45 of the last 53 years. This is the so-called "traditional summer rise." As so measured, there has been no exception when the major market trend was upward. But profiting out of the "summer rise" is easier said than done, as this column has pointed out in past years. Will the major trend be upward in July or August? That can be ascertained with assurance only some months hence, by a backward look at the chart. Assuming a summer rise, will it be large or small? We refer you again to the chart, along about September. Will the high come in July? See same chart. Or August? See same chart. If in July, what week or day? We could go on and on; but probably you already get the point—which is that speculating for the "traditional summer rise" is very far from riskless. However, there is this to be said: if the main trend has been up to the end of May, the record shows that the odds are greatly against a serious July-August decline. In other words, the seasonal factor for the medium-term period supplies a more convincing basis for holding good stocks previously bought than for speculative buying aimed specifically for a short-term play into July or August.

Revised

It is not many weeks ago that most oil men were either worried or had their fingers crossed. Now bullishness is the rule. Some officials say that crude output will have to be increased 400,000 barrels a day to meet prospective demand later this year. The State of Texas, which has over half the nation's proven reserves and which maintains the most effective control of production, has recently raised allowable output for June by 140,500 barrels a day, or some 6.2%. The Commission has the pledge of leading companies that they will not increase imports over recent levels. On the basis of this, and demand forecasts, it may raise the allowable further in July and August. It looks like a good year, after all, for domestic oils. Recent advances in the stocks have been mostly moderate, leaving a number of them attractive. For instance, and this is not set forth as an exclusive list, Continental Oil, Humble, Ohio Oil, Pure Oil, Plymouth Oil, and Standard Oil of Ohio.

Groups

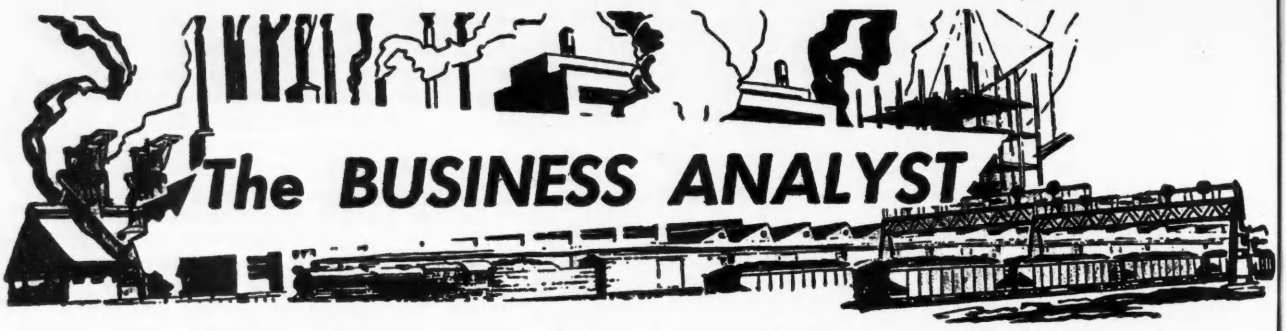
Stock groups recently "acting well" include a number which had been relatively backward for some time, such as farm equipments, auto parts, copper, lead and zinc, mail order stocks and rayon. Also included are such tradtional "late movers" as machinery, electrical equipment and steels. Other groups recently meeting with above-average demand include oils, paper stocks and building materials.

Trade

Retail trade in "hard goods" and all types of home furnishings is booming; but is only fair-to-middling in the general run of soft goods. Prices are firmer than (*Please turn to page* 290)

DECREASES SHOWN IN RECENT EARNINGS REPORTS

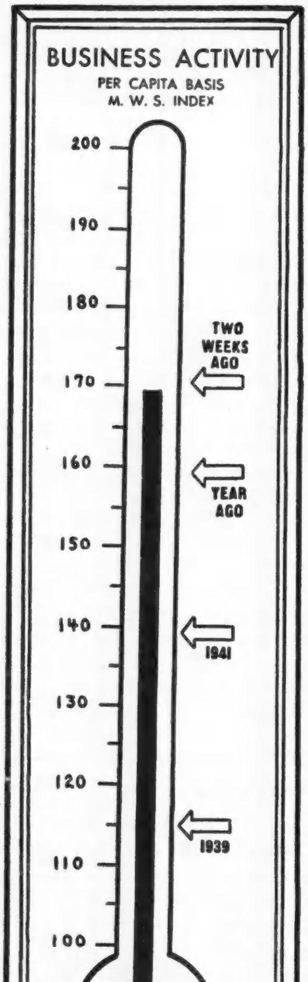
		1950	1949
Hercules Motors Corp.	March 31 Quarter	$ .07	$ .95
Northern Natural Gas	March 31 Quarter	.93	1.08
White (S. S.) Dental Mfg.	March 31 Quarter	.35	1.07
Pet Milk Co.	March 31 Quarter	.08	.43
Eastman Kodak	March 30 Quarter	.76	.81
Twentieth Century-Fox Film	13 Weeks April 1	.61	1.04
American Tobacco	March 31 Quarter	1.43	1.83
Burlington Mills	6 months April 1	2.20	2.55
Gaylord Container	March 31 Quarter	.41	.53
International Nickel	March 31 Quarter	.54	.84



What's Ahead for Business?

By E. K. A.

Current business news are helping to keep the pot of optimism boiling, with even the possibility of a flare-up in labor relations greatly reduced by the unexpected UAW-General Motors agreement on pension and wages. The thought suggests itself that the new five-year contract may also mean labor peace, this year at least, in other industries. Some Government labor experts seem to think so, expecting a "comparatively good summer" from a labor standpoint. But the electrical workers are still to be heard from. Perhaps the GM pattern will speed up contract negotiations there, since doubtless GM will soon extend its generous "auto formula" to its electrical plants. Whether General Electric and Westinghouse will then follow suit is another, and disputed question. At any rate, the auto industry now has the green light.



Speaking of the auto boom, there seems to have been a revision of this year's production and sales potentials. GM chairman Sloan has told stockholders that demand for cars would probably continue throughout 1950 at the current record rate—in contrast to his earlier opinion that a moderate let-down was probable this autumn. If the revised appraisal proves correct, there will be little to worry businesswise during the balance of the year. At any rate, auto output is currently rolling along at an annual clip of seven million units—a record figure, and there is no sign of any lowering of schedules. The annual model change-over has been postponed until November-December to assure the longest possible production run on present models.

Residential housing, that other boom industry, also keeps outdoing itself. Housing starts in March numbered 110,000 units, and rose to 126,000 units in April. Fly in the ointment is that this terrific activity is also putting pressure on materials prices with the result that building costs latterly have risen. Under present conditions, with ultra-easy home financing available, higher prices for houses is about the only thing that could dampen the building boom. If the trend keeps up, some expect that selling new homes might become somewhat more difficult later in the year. But nothing of the sort is apparent as yet. The building boom continues unabated and as it does, the backlog of public works, which are deliberately held down to avoid undue pressure on the materials price structure, is growing larger every month. This backlog constitutes effective reinsurance against any falling off in residential building in the future. Construction activity, of one kind or another, is bound to remain high for an indeterminate period, it seems. But builders' profits are shrinking as construction costs are causing trouble.

Some Soft Spots Persist

High level activity in autos, housing and everything that goes into homes not only constitutes the main prop of the current boom but also tends to obscure its lack of uniformity. A good many soft spots exist, particularly in luxury and semi-luxury lines. The amusement business has been in a decline for more than a year; liquor sales are down about 6% from their postwar highs and soft goods generally, particularly apparel, continue to feel the impact of marked consumer preference of hard goods. Machinery production, while improved, is not what it was two years ago, and farm machinery sales particularly are feeling the impact of lower farm income. While a seasonal sales spurt is indicated, it won't be vigorous enough to bring the sales curve up to previous levels. Thus any general report of excellent business brings a challenge from some businessmen who insist that their own business is not good, despite the fact that the FRB industrial production index is now only about 3% below its postwar peak.

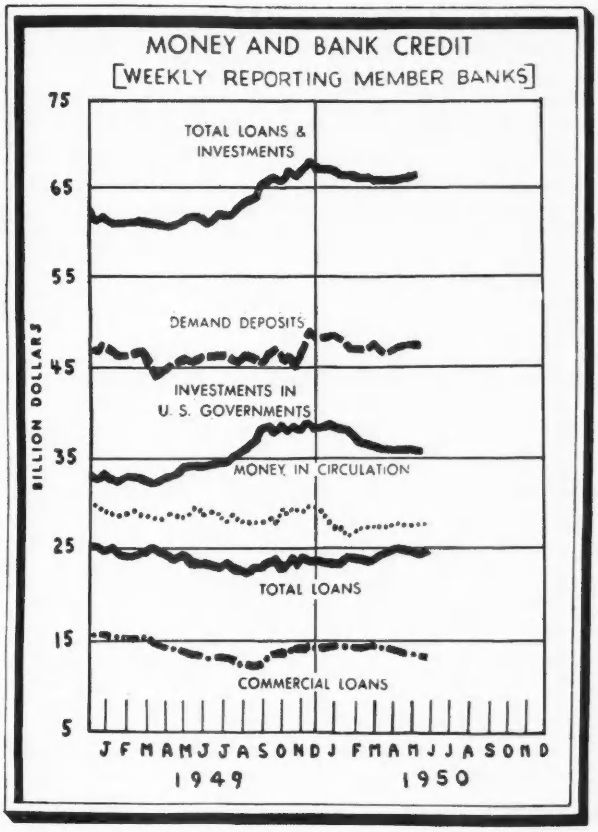
Cross curents of this sort are bound to exist; they highlight the relative importance of the auto and building boom in the overall equation. Were either to slacken only moderately, this would be brought home quickly.

As things shape up, second quarter business activity will set a new peak and the third quarter should show only a small decline, chiefly seasonal in character due to vacation shut-downs, inventory taking, etc. The fourth quarter may reveal a somewhat greater slow-down, but far from drastic.

The Business Analyst

HIGHLIGHTS

MONEY AND CREDIT—All three of our major common stock indexes advanced during the fortnight ended May 20 to new highs since 1946, with 20 of the 46 group indexes also registering new highs for various periods, as tabulated on the second page following. Only two of the group indexes have as yet passed their 1946 highs. First prize goes to the chemicals group which achieved the highest record since 1929, followed by finance companies which, spurred by the record demand for automobile sales credit, rose to the highest level since 1937. Since the first of the year, our composite index of 325 active common stocks has risen about 14%. Yet it has not been a one-way street. Six of the group indexes are actually down on the year, led by the Amusement and Gold Mining groups which are each off about 11%. As always happens in any broad market movement, whether upward or downward, the more speculative issues, represented by our index of 100 Low Priced Stocks, have far outdistanced the performance of investment grade stocks, as represented by our index of 100 High Priced Stocks. The former has risen 21% since the first of the year, compared with a gain of less than 10% for the latter. Other securities of investment rating have been showing even less spectacular trends. Thus New York Bank Stocks have not yet recovered to their level of last March 18; high grade preferred stocks have sagged to the lowest level in 3 weeks; high grade Rail Bonds are the lowest since last September 3, despite the rise in railroad common stocks to the highest average in two years; other corporate bonds edged forward a bit since our last issue; but foreign government dollar bonds sagged to the lowest average level since March 11. Similar mixed trends have been displayed by the two types of Victory $2\frac{1}{2}$s, with the restricted issue off to the lowest price since January 28 while the bank-eligible series commands the best price since January 14. During the fortnight ended May 10, the earnings assets of weekly reporting member banks shrank $114 million, largely in consequence of a further decline of $109 million in commercial loans. Demand deposits were down $255 million, mainly due to transfers of funds from reporting centers to outlying districts. In the fortnight ended May 17, member bank reserve balances rose $137 million, mainly as a result of further contraction in the amount of money in circulation and heavy disbursements by the Treasury, the potentially inflationary effects of which were only partially counteracted by contraction of $191 million in Reserve Bank credit. Further expansion of around $300 million in the public debt during the fortnight helped the Treasury to lift its cash balance by $192 million. An excess of $85 million in receipts over expenditures during the fortnight permitted a reduction of like amount in the budget deficit, which stood at $2,935 million for the fiscal year to May 17, compared with a surplus of $1,524 million for the corresponding period last year. The Treasury is taking progressive steps toward raising interest rates on its 12-month certificates to $1\frac{1}{4}$% The latest issue carrying this rate is for a term of only 13 months. Another "refund" on Veterans' insurance payments, though less liberal than the $2.8 billion of which distribution is now being completed, will start early in 1951. Congress suspects this is not a true refund; but merely subsidies in disguise. A Senate banking subcommittee reports that hidden subsidies amounting to almost $6.5 billion were also handed out during the last fiscal year ended June 30, 1949, to borrowers from the R.F.C. Belgium has just announced that banks and foreign exchange dealers there are now authorized to resume free trading in U. S. dollars, Swiss and French francs, Italian lire and Deutsche mark bank notes; but the British pound and Dutch florin are not included.



TRADE—The dollar total of department store sales throughout the nation during the fortnight ended May 13 showed an average dip of only 1% below the corresponding period a year ago, compared with a cumulative decline of 3% for the year to date.

INDUSTRY—Record personal incomes and demand for durable goods combine with Government deficit spending to lift prices of basic commodities to the highest levels in over a year, thereby encouraging resumption of inventory accumulation.

COMMODITIES—After rising to new highs for over a year, farm products sold off during the fortnight ended May 20 on reports of improved weather conditions.

While the nation's physical volume of **Business Activity**

(Please turn to the following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	April	1.11	1.16	1.28	1.55
Cumulative from mid-1940	April	395.3	394.2	380.8	13.8
FEDERAL GROSS DEBT—$b	May 17	256.0	255.8	251.6	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	May 10	46.9	46.9	47.8	26.1
Currency in Circulation	May 17	27.0	27.0	27.4	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	May 10	9.08	9.10	8.36	4.26
93 Other Centers—$b	May 10	12.93	12.93	12.96	7.60
PERSONAL INCOMES—$b (cd2)	Mar.	225.5	221.8	212.5	102
Salaries and Wages	Mar.	140.4	138.0	136.7	66
Proprietors' Incomes	Mar.	43.7	44.1	46.2	23
Interest and Dividends	Mar.	17.9	17.6	17.0	10
Transfer Payments	Mar.	23.5	22.1	12.6	3
(INCOME FROM AGRICULTURE)	Mar.	18.8	19.1	22.0	10
POPULATION—m (e) (cb)	Apr.	151.2	151.0	148.5	133.8
Non-Institutional, Age 14 & Over	Apr.	110.5	110.4	109.4	101.8
Labor Force	Apr.	63.5	63.0	62.3	57.5
Military	Apr.	1.33	1.35	1.49	1.89
Civilian	Apr.	62.2	61.7	60.8	55.6
Unemployed	Apr.	3.5	4.1	3.0	3.8
Employed	Apr.	58.6	57.5	57.8	51.8
In Agriculture	Apr.	7.2	6.7	7.8	8.0
Non-Farm	Apr.	51.5	50.9	50.0	43.8
At Work	Apr.	49.9	49.2	48.6	43.2
Weekly Hours	Apr.	40.8	41.2	41.5	42.0
Man-Hours Weekly—b	Apr.	2.04	2.03	2.02	1.82
EMPLOYEES, Non-Farm—m (lb)	Mar.	42.3	41.7	42.9	37.8
Government	Mar.	5.7	5.7	5.8	4.8
Factory	Mar.	11.6	11.6	11.9	11.7
Weekly Hours	Mar.	39.7	39.7	39.1	40.4
Hourly Wage (cents)	Mar.	142.5	142.0	140.0	77.3
Weekly Wage ($)	Mar.	56.57	56.37	54.74	31.23
PRICES—Wholesale (lb2)	May 16	155.9	155.1	155.5	92.5
Retail (cdlb)	Mar.	183.8	183.3	189.4	116.2
COST OF LIVING (lb3)	Mar.	167.0	166.5	169.5	100.2
Food	Mar.	196.0	194.8	201.6	113.1
Clothing	Mar.	185.0	184.8	193.9	113.8
Rent	Mar.	122.9	122.8	119.9	107.8
RETAIL TRADE —$b					
Retail Store Sales (cd)	Mar.	10.92	9.28	10.53	4.72
Durable Goods	Mar.	3.64	3.05	3.28	1.07
Non-Durable Goods	Mar.	7.28	6.23	7.25	3.65
Dep't Store Sales (mrb)	Mar.	0.75	0.59	0.75	0.42
Retail Sales Credit, End Mo. (rb2)	Mar.	9.55	9.44	7.48	5.46
MANUFACTURERS'					
New Orders—$b(cd) Total	Mar.	20.5	18.0	18.0	14.6
Durable Goods	Mar.	9.5	7.5	7.2	7.1
Non-Durable Goods	Mar.	11.0	10.5	10.8	7.5
Shipments—$b(cd)—Total	Mar.	19.8	17.3	19.2	8.3
Durable Goods	Mar.	8.5	7.1	8.2	4.1
Non-Durable Goods	Mar.	11.3	10.2	11.0	4.2
BUSINESS INVENTORIES, End Mo.					
Total—$b (cd)	Feb.	54.2	53.8	58.8	28.6
Manufacturers'	Feb.	31.2	31.3	34.6	16.4
Wholesalers'	Feb.	9.2	9.1	9.2	4.1
Retailers'	Feb.	13.8	13.4	14.5	8.1
Dept. Store Stocks (mrb)	Feb.	2.1	1.9	2.1	1.4
BUSINESS ACTIVITY—1—pc	May 13	169.3	170.3	159.0	141.8
(M. W. S.)—1—np	May 13	199.3	200.0	182.5	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 273)

held virtually unchanged during the fortnight ended May 13, sharp contraction during the corresponding interval a year ago caused widening to 9.2% in the margin of increase over a year ago.

* * *

This year's **Rising Trend** in production and prices, and hence profits, is in marked contrast with last year's receding tide, and year-to-year comparisons will become progressively more favorable up to mid-July which last year marked the end of the mild recession. After mid-July, annual comparisons this year will be with the rising trend last year. Since most of the heavy goods section of industry has now virtually reached capacity, it will not be possible during the second half of the current year to duplicate last year's rate of improvement; so that year-to-year comparisons after mid-July will become progressively less favorable.

* * *

With new orders and production in the heavy goods section of our economy continuing to ring up new highs monthly, it is hardly surprising to hear from the Commerce Department that Personal Incomes and the **Gross National Product** (Business Activity, measured in dollars) expanded to record heights during the first quarter.

* * *

Rising prices, particularly for metals, rubber, textile fibres, building materials and their products, are beginning to revive "protective" inventory accumulation. The Commerce Department reports that **Inventories** expanded during the first quarter at an annual rate of $1.5 billion, contrasted with inventory liquidation during the preceding quarter at the annual rate of $3.5 billion. Inventory accumulation has not yet reached a point where it threatens another liquidating recession, such as last year's; but its potentials will bear watching.

* * *

Seasonal Industries such as Tires, Textiles, and Farm Equipment, are again joining the parade of rising demand, production, prices and hence profits; but Television is beginning to experience a seasonal dip in sales.

* * *

The tide has turned for **Petroleum** since the first quarter when profits slipped 18% below last year and much concern was being voiced that competition from imported oil might precipitate a cut in crude prices. Now, as summer approaches, with hundreds of thousands of new cars

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—1—np (rb)	Mar.	186	181	184	174
Mining	Mar.	143	118	136	133
Durable Goods Mfr.	Mar.	212	207	223	220
Non-Durable Goods Mfr.	Mar.	179	180	168	151
CARLOADINGS—t—Total	May 13	717	744	772	833
Manufactures & Miscellaneous	May 13	340	355	338	379
Mdse. L. C. L.	May 13	77	86	94	156
Grain	May 13	39	42	46	43
ELEC. POWER Output (Kw.H.) m	May 13	5,864	5,872	5,257	3,267
SOFT COAL, Prod. (st) m	May 13	10.1	10.8	11.1	10.8
Cumulative from Jan. 1	May 13	162	152	199	446
Stocks, End Mo.	Mar.	28.1	24.6	60.5	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	May 13	5.1	5.0	5.7	4.1
Gasoline Stocks	May 13	126	127	122	86
Fuel Oil Stocks	May 13	39	39	62	94
Heating Oil Stocks	May 13	38	37	52	55
LUMBER, Prod. (bd. ft.) m	May 13	527	797	688	632
Stocks, End Mo. (bd. ft.) b	Mar.	6.3	7.0	7.1	12.6
STEEL INGOT PROD. (st) m	Apr.	8.20	7.48	7.80	6.96
Cumulative from Jan. 1	Apr.	30.4	22.2	31.9	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	May 18	206	183	148	94
Cumulative from Jan. 1	May 18	4,120	3,914	2,861	5,692
MISCELLANEOUS					
Paperboard, New Orders (st) t	May 13	186	200	147	165
U. S. Newsprint Consumption (st) t	Apr.	524	515	479	352
Do., Stocks (mpt), End of Month	Apr.	540	578	640	523
Natural Rubber Consumption (lt) t	Apr.	60.8	56.6	53.1	54.3
Do., Synthetic	Apr.	37.6	31.9	39.0	0.5
Pneumatic Casings Production—m	Mar.	7.3	6.7	6.6	4.0

PRESENT POSITION AND OUTLOOK

speeding along the roads and busy factories gobbling up fuel oil and depleting stocks, prices for refined products are rising again with prospects that demand for petroleum this year may top last year by as much as 6%.

* * *

New Orders booked by manufacturers during March rang up a post-war monthly record of $20.6 billion.

* * *

The Bureau of Labor Statistics predicts that the output of **Machine Tools** may top 1949 by 20%; but remarks that employment in this field is not expanding as fast as production, since the industry prefers to pay for overtime rather than incur the expense of hiring and training additional workers. In consequence, weekly working hours now average 40.8 against 38.1 last November; while hourly wages had reached a record high of $1.54.

* * *

Expenditures for new **Construction** during April hit $1.7 billion, largest for any April in history and 24% above a year earlier. New dwelling units started in April numbered 126,000 — 43% ahead of the corresponding month last year, compared with a four-months' leap of 53%.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cd1b—Commerce Dept. (1935-9—100), using Labor Bureau and other Data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted Index (1935-39—100). lb—Labor Bureau. lb2—Labor Bureau (1926—100). lb3—Labor Bureau (1935—100). lt—Long Tons. m—Millions. mpt—At Mills, Publishers, and in Transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np.—Without Compensation for Population growth. pc—Per Capita Basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, Instalment and Charge Accounts. st—Short Tons. t—Thousands. *—1941; November, or Week ended December 6.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

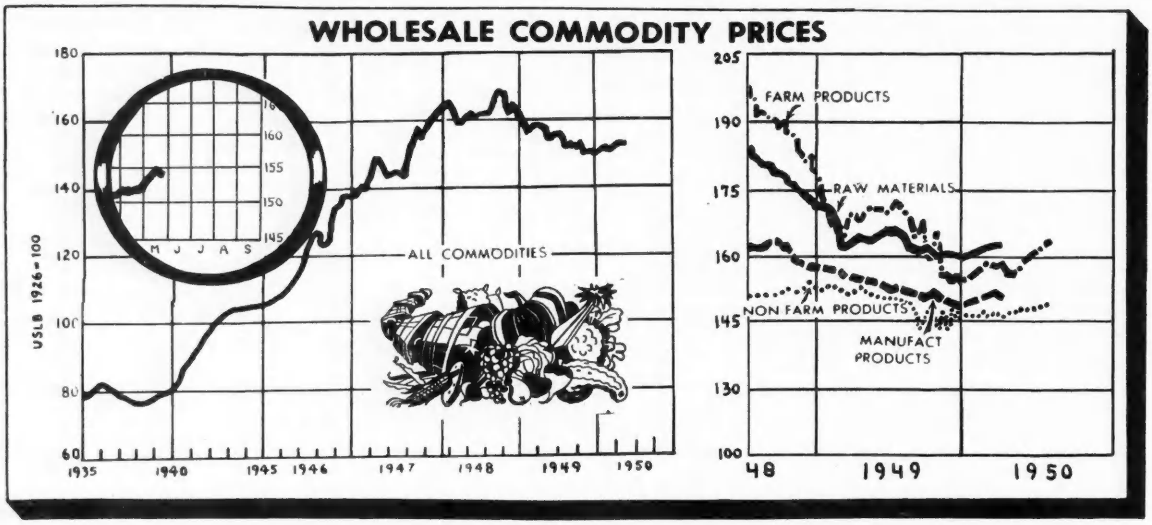
No. of Issues (1925 Close—100)	1950 Indexes High	Low	May 13	May 20
325 COMBINED AVERAGE	153.3	134.7	149.4	153.3D
4 Agricultural Implements	207.5	188.5	201.5	204.9
10 Aircraft (1927 Cl.—100)	238.8	170.8	222.8	225.7
6 Air Lines (1934 Cl.—100)	527.1	451.7	505.9	515.7
7 Amusement	104.4	90.6	91.5	90.6a
10 Automobile Accessories	229.1	195.6	221.8	227.7
12 Automobiles	36.0	28.5	34.7	36.0
3 Baking (1926 Cl.—100)	23.3	19.8	20.4	20.4
3 Business Machines	276.5	253.4	262.4	263.0
2 Bus Lines (1926 Cl.—100)	176.6	153.0	167.4	158.5
5 Chemicals	299.6	256.4	288.8	299.6T
3 Coal Mining	14.3	12.3	12.5	12.4
4 Communication	60.3	41.9	59.6	60.3D
9 Construction	64.9	61.0	64.0	64.9B
7 Containers	337.4	309.0	325.4	337.4B
9 Copper & Brass	100.9	80.3	97.8	100.9B
2 Dairy Products	78.3	71.2	78.3D	77.8
5 Department Stores	61.2	56.6	59.5	61.1
6 Drugs & Toilet Articles	209.8	185.2	208.9	209.8C
2 Finance Companies	353.5	319.9	350.9	353.5N
7 Food Brands	180.9	174.5	179.2	180.4
2 Food Stores	108.0	93.4	101.4	101.5
3 Furnishings	79.4	69.0	74.2	79.4B
4 Gold Mining	753.5	634.1	674.7	634.1a

(Nov. 14, 1936, Cl.—100)	High	Low	May 13	May 20
100 HIGH PRICED STOCKS	95.19	86.35	93.39	95.19D
100 LOW PRICED STOCKS	183.93	151.88	180.45	183.93D
5 Investment Trusts	78.8	71.0	77.9	78.8D
3 Liquor (1927 Cl.—100)	897.6	808.6	824.0	851.4
11 Machinery	165.5	145.4	163.1	165.5B
3 Mail Order	119.0	105.4	117.1	119.0B
3 Meat Packing	99.0	85.9	98.0	99.0B
12 Metals, Miscellaneous	169.3	139.9	165.5	169.3B
4 Paper	47.0	39.5	44.2	47.0B
30 Petroleum	286.9	241.8	277.3	286.9B
27 Public Utilities	153.8	141.0	149.3	152.0
5 Radio & TV (1927 Cl.—100)	35.3	18.1	31.1	31.3
9 Railroad Equipment	50.7	43.9	45.5	49.9
24 Railroads	26.0	22.3	25.1	26.0B
3 Realty	35.3	30.8	34.9	35.3D
3 Shipbuilding	160.7	139.7	151.7	152.8
3 Soft Drinks	391.6	338.2	368.3	369.0
15 Steel & Iron	116.6	96.1	112.1	116.6B
3 Sugar	53.9	49.0	53.5	53.9B
2 Sulphur	352.1	319.5	348.3	341.1
5 Textiles	139.9	119.9	139.2	139.0
3 Tires & Rubber	38.2	32.0	37.4	38.1
6 Tobacco	88.2	81.5	81.9	83.0
2 Variety Stores	352.3	337.9	339.2	337.9a
19 Unclassified (1949 Cl.—100)	110.0	100.0	107.7	110.0A

New HIGH since: A—1949; B—1948; C—1947; D—1946; N—1937; T—1929. a—New LOW this year.

Trend of Commodities

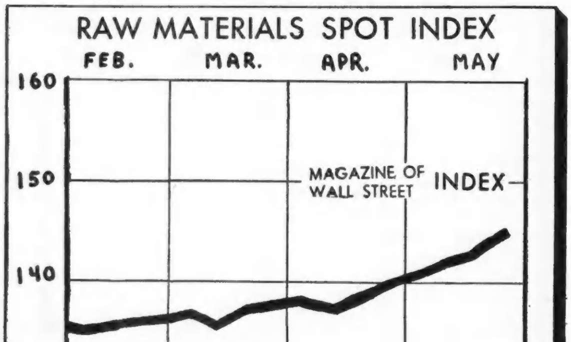
Weather conditions, which are usually influential in directing the trend of farm products prices during the early months of a new crop year, turned more favorable since our last issue; so that futures, after entering new high ground, turned reactionary during the past fortnight and ended lower than they started. This publication's index of raw material spot prices, on the other hand, closed the fortnight at the best level in over a year, owing mainly to continuing strength in the metals group, along with further advances in wool, rubber and hides. Copper was up a cent, lead and tin ¾ cent, zinc and aluminum ½ cent, wool 9½ cents, rubber 3 cents, and hides 1½ cents. Stocks of refined copper held by producers dropped in April to the smallest tonnage in 5 years. Less than a year ago, when rubber was selling here at 15½ cents, processors were tinkering with the idea of adapting it for use in highway construction by mixing with concrete to improve surface durability; but now, with rubber at a new post-war high of 29 cents, those blueprints have been shelved. At that time, to help Britain ease her dollar shortage, our Government permitted processors here to use 50,-00 tons more of the natural, and 50,000 tons less of synthetic rubber. Now the Government is being importuned to step up supplies of synthetic at its ceiling price of 18½ cents. Despite the wide discrepancy in prices, our consumption of the natural product in March (as set forth in the statistical column of the preceding page) was up 15% from a year ago, compared with a decline of 6% for synthetic. Prices of tires are being raised as rubber advances.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

Spot Market Prices — August, 1939, equals 100

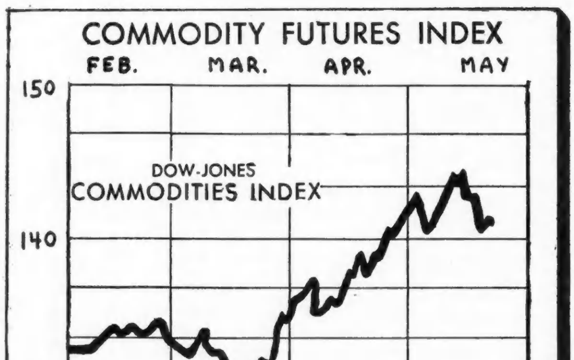
	Date May 22	2 Wk. Ago	1 Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	260.3	256.4	250.9	248.7	249.3	253.1	156.9
11 Imported Commodities	257.7	257.5	253.2	251.0	260.9	250.3	157.3
17 Domestic Commodities	261.9	255.6	249.4	247.2	242.1	238.5	156.6
7 Domestic Agriculture	326.6	322.1	312.1	305.3	290.6	292.2	163.9
12 Foodstuffs	332.5	330.1	316.2	309.8	300.8	283.3	169.2
16 Raw Industrials	228.9	224.0	222.3	220.8	228.0	227.3	148.2



14 Raw Materials, 1923-25 Average equals 100

Aug. 26, 1939—63.0 Dec. 6, 1941—85.0

	1950	1949	1947	1945	1941	1939	1938	1937
High	145.6	161.5	164.0	95.8	85.7	78.3	65.8	93.8
Low	134.2	134.9	126.4	93.6	74.3	61.6	57.5	64.7



Average 1924-26 equals 100

	1950	1949	1947	1945	1941	1939	1938	1937
High	144.11	139.28	175.65	106.41	84.60	64.67	54.95	82.44
Low	131.21	122.45	117.14	93.90	55.45	46.59	45.03	52.03

Keeping Abreast of Industrial and Company News

The Frigidaire Division of **General Motors Corporation** sees a rosy future ahead for air conditioners in the average American household. The view is expressed that these conveniences will play as important a role as electric refrigerators, ranges, etc. in due time. A big step in this direction, and one that may prove to be the forerunner of a new trend in air conditioning, has been their inclusion in a multi-million dollar "package" housing development on Long Island. Although rents in this new 284-family project will range as low as $58.50 per month, all apartments will have one or more compact one-half horse power Frigidaire window room air conditioners, and at no extra charge for the tenants.

The encouraging tendency of large industrial concerns to allot substantial sums for the education of promising young scientists has met with widespread commendation. The **Socony-Vacuum Oil Company,** for example, plans to support twenty fellowships in 1950-51. One that involves a grant of $2000 to Columbia University will establish a fellowship in surface chemistry and physics during the academic year beginning in September, although no restrictions are placed on the recipient's future employment, and entire freedom is granted to study subjects unrelated with the petroleum industry. Students, however, must have had at least one year of graduate work.

A patent for a three color direct view television tube has just been issued to **Allen B. Du Mont Laboratories, Inc.,** after almost five years of delay by the Patent Office. Instead of having a coating of fluorescent material which produces black and white pictures when struck by an electron beam, this new color tube has a screen composed of tiny fluorescent dots that give red, blue and green colors when under the impact of the beam. While this new tube can easily be utilized in television sets presently confined to black and white exhibitions, Dr. Du Mont cautions that there is much ground to cover yet before a color system is developed that will be comparable to black-and-white in quality, ease of operation and cost.

What may be the most revolutionary process of making metal castings since the time of the Egyptians has been evolved by **Monsanto Chemical Company.** The old method using great quantities of sand would be replaced by employment of two thin metal shells with mixed fine sand and phenolic resin surfacing cured while the metal is hot. The two shells are clamped together and placed in a box reinforced by steel shot. As the shells are porous, gases can escape without creating pressure. Additionally, 95% of sand now used is eliminated, dimensions are more accurate and much smoother surfaces are obtained for the castings, while substantial time, money and materials handling is avoided.

Construction is progressing on two building projects at the Milwaukee plants of **Froedert Grain & Malt Company,** with expectation that the work will be completed by January 1, The company is erecting a sizable new plant for the production of specialty malt products apart from regular brewer's and distiller's malts, as more than two dozen of these specialties have been developed that tend to diversify the company's output.

A magnificent new cruise ship, the "Ocean Monarch," is scheduled for launching by the **Furness Lines** on July 27 at Newcastle-on-Tyne in England. With a tonnage of 15,000 tons and a speed of 20 knots, this new luxury ship will accommodate 440 passengers. An innovation in design permits the accommodation of all passengers in outside staterooms, each with private bath. The "Ocean Monarch" has a length and draft that will allow her to call at many ports where larger cruise ships cannot enter, thus opening an entirely new field to the American cruising public.

Manufacturers of long playing records will have something to think about when department stores in 87 cities in June will offer a long list of musical numbers produced by **Remington Records** at astonishingly lower prices. The slashing in price affects some 500 musical works, from pop songs to operas, all of which will carry a price tag of 99 cents compared with a former range of $2.85 to $4.85. A new process whereby these long playing records are made from liquid at a cost of about 3 cents, compared with Vinolyte that now costs about 50-60 cents a record, has made the new prices possible. The new material is flexible like Vinolyte and very similar in appearance. In a couple of months, customers of Woolworth and other specialty chains will be listening to records of Beethoven, Mozart and Brahms in these stores for the first time in history. A single day's purchases in one store of the R. H. Macy department store group amounted to 20,000 records.

The flood of incoming orders to manufacturers of Diesel locomotives from railroads seems to continue unabated. The **Baltimore & Ohio Railroad** already has twenty Diesel-electric locomotives in service, and their efficiency has been so well proven that the company has just ordered 34 more. The new units are to be delivered in 1951 and when combined in triple formation will provide the equivalent of a 4500 h.p. locomotive capable of handling through freight trains without the need of booster locomotives on grades.

Electrical equipment totaling more than one million dollars has been ordered for the Italian steel

industry from the **Westinghouse Electric International Company,** under an ECA program to modernize the industry and reduce import requirements for steel. Four companies will receive the new equipment, the Fiat automobile concern, the Lombardi Falck Steel Corporation in Milan, another concern near Naples and Ilssa-Viola. Deliveries on all orders are scheduled for completion by December.

The **United States Rubber Company** has developed a new material called "Aero-Sealz," designed to protect the surface of airfield runways from the damaging effects of fuel spilled by jet planes. Damage caused by the kerosene type fuel used by the jet planes is a major problem in modern airport construction and maintenance due to its lower rate of evaporation than high-octane gas. One jet plane may spill as much as five gallons while warming up. The new surfacing material is a solvent resistant rubber compound which, when mixed with tar, produces a tough, durable floor that eliminates the former deterioration caused by the jet fuels and greatly lessens the present cost of repairs.

The mounting cost of imported carpet wools has caused **James Lees & Sons** to introduce two exciting new carpets made of 100% synthetic fibres. After years of research, testing every available type of substitutes for wool fibres, this firm found in "Estron" the most satisfactory material, considering quality and price. The new carpets are both Axminster and Wilton loomed in four colors, are beautifully patterned and easily cleaned, besides being durable and moth-resistant. The main significance of the new products is that they are "All-American" and promise a much more stable price situation than fabrics depending on more volatile wools.

A subsidiary of **Phillips Petroleum Company** plans to construct a new 281-mile ten-inch pipe line from Borger, Texas, to Yale, Oklahoma, before long. Upon completion, this pipe line will make it possible to transport large amounts of West Texas and Panhandle crude oil to the Phillips refineries in Kansas City, Kansas, and Okmulgee, Oklahoma, supplementing present substantial supplies.

Bendix Aviation Corporation has announced the release of a new line of television models and initial shipments are already under way to all the major markets. The new, competitively priced line, ranging from a 14-inch table model to a 16-inch radio-phono combination, is expected to increase sales during the summer season. Improved styling and performance, plus larger discounts to dealers, should aid in achieving the desired goal.

The continuing encroachment of Government in the public utility field can only be met by private utilities through increased market development and expanded facilities, according to Philip Sporn, president of **American Gas and Electric Company** in addressing the annual meeting. If all requirements for electric power in a given area are adequately taken care of at reasonable costs and future needs are somewhat anticipated, less excuse will arise for intrusion by Federal authorities. Mr. Sporn in studying long range planning by his own company and by other leading utilities concludes that the $6 billion capital expenditures planned by the group for 1947-51 will actually be nearer $9 billion, and that expansion will proceed at a high rate in following years.

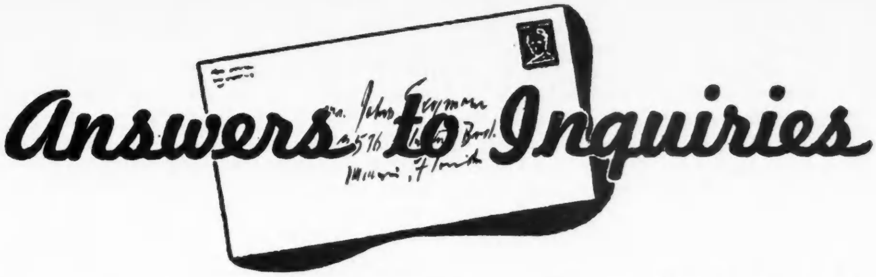
Now that large scale industrial investments have been undertaken by the leading insurance companies, competition with banks and private bankers has increased. The growing importance of the Middle West and its expanding economy have prompted the **Mutual Life Insurance Company** of New York to establish a regional investment office in Chicago. The territory to be covered at the outset will comprise the Mississippi Valley area. Henry Verdelin, vice-president, will establish headquarters in Chicago and begin operations on June 1. Under Mr. Verdelin's supervision, the company will be in a better position to meet the needs of the real estate market and growing industries in the midwestern area.

Commercial Credit Company of Baltimore recently elected Berthold Muecke, Jr. as secretary and general counsel of the company and its subsidiaries. Mr. Muecke, a partner in the company's New York counsel firm for twenty years past, is a graduate of the College of the City of New York and of the Columbia University Law School. In his new position he succeeds Eugene E. Heaton, who died not long ago.

Unveiling of the huge Colorama at **Eastman Kodak Company's** Photo Information Center in New York's Grand Central Station marks another milestone in the history of color photography. The giant transparency measures 18 by 60 feet. The original color negatives used for enlargement of the three panel pictures cannot exceed approximately 5 inches in height or more than 9½ inches in length, and are processed by special equipment at Kodak Park, being projected on a screen forty feet from the negative. As a result, the head of a little girl, as seen in the close-up on the Colorama measures about four feet from forehead to chin. The illuminator is a solid bank of cold-cathode tubes consuming 61,000 watts of electric current, and spaced 2½ inches on centers totals more than a mile in length.

The longest continuous lighting installation in the world, in which four ribbons of fluorescent light extend almost two miles, illuminates the new Brooklyn-Battery Tunnels, recently opened for traffic in New York City. This unique lighting system is part of the electric equipment supplied by **General Electric Company,** in collaboration with the Triborough Bridge and Tunnel Authority for the 9,117 foot underground highway. Other items furnished by the company are power distribution equipment, switchboards and controls, wire and cable.

The final link in **Algonquin Gas Transmission Company's** plan to bring natural gas to New England was recently completed when the supplying pipe line, **Texas Eastern Transmission Corporation** consummated what is probably the world's largest single natural gas supply contract. Texas Eastern contracted with an important producer of gas to receive about 134 billion cubic feet annually, almost twice the amount needed by Algonquin. Texas Eastern recently applied to the FPC for a new 971-mile 30-inch pipe line to serve Algonquin and other customers in the Northeast, and in connection with this project plans to acquire and operate the largest single underground storage facilities in existence, in order to assure adequate supplies of gas in the five winter months. The underground field would hold 105 billion cubic feet of gas.



Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

May Department Stores

I would appreciate information as to May Department Stores' recent sales volume, net income and ratio of assets to liabilities. *F. J., Rutland, Vermont*

Consolidated net sales of May Department Stores Company and subsidiaries for the fiscal year ended January 31, 1950 were $392,915,446 being the second largest in the company's history. The year's volume was down 3½% from the record sales of $407,266,466 for the fiscal year ended January 31, 1949. Consolidated net earnings, after provision for income taxes and minority interest, were $18,092,371, equal after preferred dividend to $5.79 per share on the average number of shares of common stock outstanding during the fiscal period. This compared with net earnings in the previous year of $19,650,653 or $6.52 per share.

The moderate decline in sales last year was due in part to the general decline in prices. The past year saw a return to more normal conditions in retailing, but with consumer purchasing power still near its all-time high. Downward price adjustments occurred in various merchandise lines as supplies became adequate, reflecting a closer relationship of the natural forces of supply and demand.

Total current assets as of January 31, 1950 amounted to $124,919,368 and current liabilities to $38,146,690, a ratio of 3.27 to 1 compared with a ratio of 2.98 to 1 at the beginning of the year.

Holdings of cash and Government securities aggregated $32,426,721 against $31,089,867 at the end of the preceding year. Merchandise inventories totaled $41,393,234, stated at cost or market, whichever is lower, compared with $41,026,330 the year earlier. Of the total inventory, $37,741,893 was determined on the last-in first-out basis and the remainder on the first-in, first-out business.

Dividends last year amounted to $3.00 per share and the 75c quarterly rate is expected to continue.

Continental Can Company

I have been told that Continental Can Company is regarded as a good grade industrial equity. Please present pertinent data as to recent earnings, expansion program and dividend.
D. M., Columbus, Ohio

Consolidated net earnings of Continental Can Company, Inc. and wholly-owned subsidiaries for the twelve months ended March 31, 1950 applicable to the common stock amounted to $3.83 per share, compared with $3.94 per share in the corresponding twelve months period ended March 31, 1949, and $3.66 per share for the calendar year 1949.

The current report showed consolidated net earnings after income taxes and other charges of $12,674,968, which, after deducting preferred dividends of $562,500, left $12,112,468 applicable to 3,158,801 common shares outstanding on March 31, 1950. This compared with net earnings of $13,021,355 for the twelve months ended March 31, 1949 after all charges, and a net amount of $12,458,855 after preferred dividends, applicable to 3,158,601 common shares outstanding on March 31, 1949.

Net sales for the twelve months ended March 31, 1950 amounted to $344,108,308 against $317,135,874 reported for the corresponding twelve months ended March 31, 1949 and $335,832,362 for the 1949 calendar year.

Sales for the first quarter of 1950 were $69,502,243, compared with $61,226,298 in the same quarter last year—an increase of 13½%.

1949 operating results were one of the best in the company's history. In comparing the earnings of the past three years with prior years, it should be borne in mind that the "life" method of pricing inventories was applied to a substantial portion of the company's inventories in each of these years, has resulted in reducing the reported profits below those that would have been reported under the "average cost" method formerly used. For the three years the difference resulting from this change in method amounted to about $2.50 per common share.

The substantial demand, after war restrictions were lifted, for cans for beer, coffee, pet food and motor oil, has met a continuing increase in the amounts appropriated for new equipment. The tremendous growth of new products, such as cans for frozen juice concentrates and aerosol cans for a great variety of products, has added to these appropriations. In the past five years, a net total of about $66½ million has been spent in the expansion program of which approximately $12,900,000 was spent last year.

In addition to these capital expenditures, a total of nearly $70 million has been spent for repairs and maintenance of which amount $16,198,446 was spent in 1949.

Although these expenditures

have been large, any major curtailment of this program would have resulted in failure to maintain the company's competitive position in the industry and to keep pace with the growing needs of customers.

Dividend payments of this good grade industrial equity for 1949 amounted to $1.50 per share and 80c has been declared thus far in the current year.

United Merchants & Manufacturers

Have recent earnings of United Merchants & Manufacturers increased and if they did, what were the figures and how have sales compared with the preceding period? C. P., *Camden, N. J.*

United Merchants & Manufacturers reported estimated consolidated net earnings for the third quarter ended March 31, 1950 of $3,577,000, equivalent to 84c per share on the 4,481,588 shares of outstanding common stock. For the corresponding three months of 1949, consolidated net earnings totaled $2,147,000, equivalent to 50c per share on the present number of shares outstanding.

This brings the total earnings for the nine months to $9,098,000, equivalent to $2.13 per share, which includes a foreign subsidiary's earnings amounting to $952,000, not currently available to the parent company because of prevailing exchange restrictions. For the corresponding nine months of 1949, consolidated net earnings totaled $10,760,000, equal to $2.51 per share, including a foreign subsidiary's earnings not available for dividends, amounting to $1,121,000.

Total merchandise sales (including inter-company transactions) amounted to $194,175,000 for the nine months ended March 31, 1950 compared with $196,971,000 for the same period last year.

The company's retail chain store operations under the name of Robert Hall Clothes, Inc., now has 88 units in operation from coast to coast and it is contemplating opening additional units in the Fall of 1950.

Dividends in 1949 amounted to $1.00 per share and 25c is the current quarterly rate.

Beatrice Foods Company

Please report contribution to sales volume of various divisions of Beatrice Foods Company; financial position and ratio of sales to year-end inventories.
B. E., Peoria, Illinois

For the fiscal year ended February 28, 1950, Beatrice Foods Company reported net profit of $5,433,178 after all charges including provision for Federal income taxes, compared with $4,806,961 for the preceding year. This is equivalent after provision for preferred dividend to $5.12 a share on 1,023,584 shares of common stock outstanding and compares with $4.50 a share on the same basis for the previous fiscal year.

While dollar sales of $190,459,992 for the year were slightly lower than sales of $192,199,437 for the previous year as a result of declining prices, the volume of products handled, in terms of unit sales, exceeded the previous year by 8.3%.

All departments of the business contributed to the increase in profits. Fluid milk and cream sales accounted for about 30% of total dollar sales volume and increased by $961,700 over the previous year, bringing the period of uninterrupted sales increases in this department to eleven years. The gain in milk sales in the last fiscal year, however, was entirely due to an increase of 7.5% in gallonage handled, the average price having declined 4½c a gallon from the previous year. During the year the company continued to expand its milk department and extended its activities into several new areas.

Sales of the ice cream department accounted for 17% of total dollar sales in the last fiscal year and, on a gallonage basis, showed an increase of 2%. Sales benefited from favorable weather conditions. The trend of prices was downward, but due to the increasing proportion of packaged ice cream in the company's sales volume as a result of changing methods of distribution, dollar sales were sustained at last year's level. A steadily increasing volume of ice cream is being distributed through freezer cabinets in retail food outlets which carry only packaged merchandise.

The butter department of the company has made a sharp recovery. Tonnage sales showed an increase of 13.8% and were equal to 77% of the company's all time peak established in the fiscal year ended February 29, 1940. The butter department also made a substantial improvement in profits over the previous fiscal year. Sales of butter accounted for 25% of total dollar sales volume, slightly below the previous fiscal year, due to a decrease of 10c a pound in the average sales price compared with the previous year.

Sales of other departments, not including dairy products, totaled $31,400,600 compared with $28,911,600 in the preceding year, a gain of 8.6%. This sum represents 16% of the company's total sales in the last year and indicates the company's growing diversification. The frozen food sales last year totaled $12,878,700, an increase of 20% over the previous year.

Net working capital of the company as of February 28 was $19,433,854 as compared with $19,006,957 at the end of the preceding year. The company's year-end inventory amounted to $5,345,132 compared with $4,916,848 at the end of the preceding year. The ratio of sales for the year to year-end inventory was 36 to 1 compared with 39 to 1 for the previous year.

Dividends including a special amounted to $2.00 per share thus far this year against $1.50 paid in the full year of 1949.

Louisville Gas and Electric Company

Will you please furnish information as to revenues of Louisville Gas & Electric Co. (Kentucky) and dividends.
E. C., Ashland, Kentucky

Operating revenues of Louisville Gas & Electric Company (Kentucky) and subsidiary companies for the twelve months ended March 31, 1950, amounted to $27,934,430 as compared with $27,087,544 for the twelve months ended March 31, 1949. Net operating income, after operating expenses, maintenance, taxes, depreciation, etc., was $6,938, 912 for the twelve months ended March 31, 1950, compared with $5,856,943 for the corresponding period ended March 31, 1949. Net income, after deductions for all interest charges, amortization of debt discount and expense, amortization of plant acquisition adjustments, etc., amounted to $4,697,281 or $3.39 per share compared with $4,476,115 or $3.18 per share for the corresponding periods indicated.

For the three months period ended March 31, 1950, operating revenues amounted to $8,404,981, compared with $7,557,964 for the corresponding period of the previous year. Net operating income for the first three months of 1950 amounted to $1,799,013, compared with $1,794,203 for the corre-

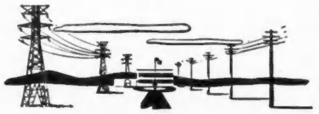
(*Please turn to page* 290)

The 1949 ANNUAL REPORT of The Dayton Power and Light Company shows

A YEAR OF STEADY PROGRESS

- **Gross Operating Revenues Up 11.8% to $36,875,000**
- **Net Available for Common Stockholders Up 27.0% to $5,519,000**
- **7-Year Construction and Operating Program 61% Completed**

On March 11, 1949, the second 60,000 kw generating unit at the O. H. Hutchings Steam-Electric Generating Station was placed in service. A third 60,000 kw unit will be placed in service in 1950 and a fourth in 1951. At the close of 1949, the rated capacity of the company's electric generating facilities was 331,325 kw.



At close of year, the company's substation capacities were 800,121 kva. Transmission lines extended 705 circuit miles and distribution lines 10,633 circuit miles. A 132 kv transmission line (to be operated initially at 66 kv) will be constructed in 1950.

Our service area, located entirely within Ohio, consists of 6,041 square miles and covers one-seventh of the total area of the state. It has a population of 811,600 and is unique in the large number (280) of cities, towns, and villages it contains.

INCOME STATEMENT OF THE COMPANY

for the two years ended December 31, 1949

	1949	1948
OPERATING REVENUES:		
Electric	$26,500,185	$23,560,778
Gas	9,011,644	8,191,095
All Other	1,362,761	1,239,738
Total operating revenues	$36,874,590	$32,991,611
OPERATING EXPENSES:		
Gas purchased for resale	$ 5,300,973	$ 5,056,793
Electricity purchased for resale	1,115,146	1,501,899
Production of electricity, steam and hot water	7,089,689	7,091,756
Transmission, distribution and general	5,126,734	4,931,625
Total operation	$18,632,542	$18,582,073
Maintenance	2,218,463	1,827,655
Depreciation	2,436,456	2,019,887
Taxes	6,100,487	5,009,987
Total operating expenses	$29,387,948	$27,439,602
Net operating revenue	$ 7,486,642	$ 5,552,009
OTHER INCOME (net)	63,855	327,941
Gross income	$ 7,550,497	$ 5,879,950
INCOME DEDUCTIONS:		
Interest on first mortgage bonds	$ 1,483,375	$ 1,054,708
Other Income Deductions (net) (credit*)	108,226*	175,657*
Total income deductions	$ 1,375,149	$ 879,051
Net income	$ 6,175,348	$ 5,000,899
PREFERRED DIVIDENDS:		
3.75% Series A and B	$ 656,269	$ 656,269
Balance transferred to earned surplus	$ 5,519,079	$ 4,344,630
EARNINGS PER SHARE OF COMMON STOCK†	$2.78	$2.56

†Based on shares outstanding at end of respective years.

These statements are condensed from the 1949 reports of the company. They are published here for general information and are not intended to induce, or to be used in connection with, any sale or purchase of securities of the company. A copy of the annual report will be mailed on request.

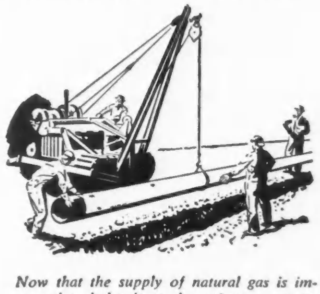
• The year 1949 marked the half-way point in a broad construction and expansion program launched in 1946, and scheduled for completion in 1952. This program, presently estimated to cost $94,263,000, is about 61% completed.

Gross revenues from all services in 1949 reached the all-time high of $36,875,000, reflecting the soundness of our construction and operating programs. Net earnings available for common stockholders totaled $5,519,000. This represented $2.78 per share (compared with $2.56 for 1948) and was calculated on the basis of the number of shares of Common Stock outstanding at the end of the year. Dividends of $1.80 per share were paid on Common Stock during the year. (Early in 1950 the quarterly dividend rate was increased from $ .45 to $ .50 per share.)

At the close of 1949 we were supplying a total of 317,995 customers with one or more of our utility services: electricity, gas, steam heating, water, or hot water heating.

The total electric gross revenues of $26,500,000 were 12.5% greater than in the previous year. Gross revenues from gas were $9,012,000 for the year, 10.0% higher than in 1948. Gross revenues from steam, hot water, and water were $1,363,000, up 9.9% over 1948.

Considered from a wide variety of viewpoints, we are located in one of the most progressive sections of America. A steady expansion of industry, requiring workmen with a high degree of skill, has continued after the war. The decentralization of industry in other parts of the nation has brought to some of the small towns in our area a number of new industries, resulting in increased residential building and commercial activity. Population growth is twice the national rate. Effective buying power is approximately 16% higher than the national average . . . These are all factors indicating there will be a steadily increasing demand for all our utility services over the years ahead.



Now that the supply of natural gas is improved and the demand continues to grow, the company is expanding its distribution system. A total of $1,312,200 was spent in 1949 for the construction of gas facilities, compared with $777,400 for 1948.

THE DAYTON POWER AND LIGHT COMPANY

25 North Main Street, Dayton, Ohio

SERVING 317,995 CUSTOMERS IN A 6,041-MILE AREA IN 24 OHIO COUNTIES

Interpreting the Significance of New Foreign Developments

(*Continued from page* 269)

all farm surpluses — always associated with the names of Miranda and Yapi.

These policies nearly killed the proverbial goose laying golden eggs. Argentine farmers refused to produce any surpluses, and during the present crop year, affected by a serious drought, there has been very little to sell. Various European countries, Great Britain, France, Belgium, and Switzerland are eager to buy, and have plenty of goods to offer. But Argentina has not had much to sell, let alone give away to Franco's Spain.

The first need is to expand agricultural production in general; the second task is to increase productivity. Essentially, the foreign exchange earning capacity of Argentine agriculture must be restored. There are many prospective customers for Argentine grains, meat, linseed and wool, provided production can be expanded. Germany especially is eager to re-enter the Argentine market. On the other hand, the future prospects for dollar earnings are none too good. There remains the old unsolved problem of what we could buy from Argentina besides meat and quebracho. Mr. Miranda's policies killed the market here for Argentine linseed for good. At any rate, the exporters to Argentina will have to move cautiously, for a second bailing-out may be more difficult to sell to the American taxpayer.

"The Ruble Trading Area"

The outlines of "the ruble trading area" are becoming more and more obvious. Bilaterial trade agreements between individual Eastern European satellite countries and the West are not being renewed, and even mutual-aid treaties among the satellite countries themselves appear to be on the way out. The moves made during the past few months point to the establishment of a vast customs union embracing all the communist - dominated countries including China, Manchuria, and Mongolia. All the international payments of this custom union would be funneled through Moscow, and the "upvalued" ruble would, of course, be used as the medium of exchange.

The removal of all the remaining gold reserves of the satellite countreis — Rumanian and Hungarian gold reserves have been moved already — to Moscow will, unquestionably, be the next step. Moscow is also reported to be taking measures to eliminate competition for western markets among the various members of the ruble customs union, China included. A German financial expert, Karl Clodius, who at one time collaborated with Dr. Schacht in building up the German economic empire, is credited with working out plans for the communist economic bloc.

The result of all these developments will be a smaller volume of trade between the East and the West, and also fewer contacts in general. This is exactly what Moscow wants. In order to make the economic integration more palatable, Moscow has been playing up the unwillingness of the United States to trade with the satellite countries. Only time will tell whether we have been right

in embargoing shipments of goods to Eastern European countries — at a time when the very same goods are being sold to the satellites by Switzerland and other Western European countries.

Recent Dividend Increases — How Dependable?

(*Continued from page* 267)

a radical downtrend in prices for fats and oils that necessitated severe mark-downs on inventory values. In anticipation of this, however, the management had established reserves of $37 million, by the application of $21 million of which earnings were kept at a fairly satisfactory level.

In the first nine months of the current fiscal year, materials costs have become rather stabilized, and increased demand for soaps has arisen. In consequence, net earnings for nine months rose to $5.08 per share from $3.48 in the same 1949-50 period. As Proctor & Gamble still has available $16 million of inventory reserves and has completed large scale plant improvement, it has seemed logical to lift the dividend rate, however conservatively. While the worldwide business of this firm is sensitive to economic changes, there is little in the medium term outlook to suggest that the new quarterly rate of 65 cents a share may not prove dependable.

For the fourth consecutive year, the sales of Dow Chemical Company have continued with an uptrend, while earnings slowly but steadily have shown improvement. For nine months of the fiscal year ending May 31, 1950, the company reported volume of $154.7 million versus $149.6 million in the related span of a year earlier, while net earnings per share were $4 per share compared with $3.81.

The history of Dow Chemical has been one of marked growth, with considerable stability assured by diversified output of industrial chemicals, plastics, agricultural chemicals, pharmaceuticals and magnesium. The management regards the outlook for magnesium as especially promising, and broad markets have been developed from products made of this light material. As the company's net earnings in fiscal 1950 may be around $5.50 per share and its financial status is strong, annual dividends at the rate of $2.40, as indicated by the recent advance to 60 cents quarterly from 40 cents, appear very conservative and should be comfortably maintained.

The payment of a 20 cents a share dividend by Avco Manufacturing Company on May 25, a semi-annual distribution, was five cents more than was paid in May and December last year. The company observes no regular dividend rate and since 1941, annual payments have varied widely in a range of 10 cents to a peak of 60 cents. In the fiscal year ended November 30, 1949, readjustment handicaps reduced net earnings to 54 cents per share from $1.11 in the preceding period, and in the recent February quarter a net of 15 cents a share was reported.

At the annual meeting, stockholders of Avco were told that business in the second quarter should improve and continue at a satisfactory level throughout fiscal 1950. The company's Crosley Division has been setting new records in production of refrigerators and television sets; sales

and earnings of the New Idea Division that produces farm equipment are holding up well; and the same could be said of the steel kitchen sink and cabinet business handled by the American Central Division. Avco's recent acquisition of a substantial block of stock in Bendix Home Appliances, Inc. may also be considered as an encouraging factor. On the other hand, granting that operations in the current very active year probably warrant payment of moderately higher dividends, if the television boom tapers off before long and consumer demand generally should recede, ability to maintain stable dividends would have to be proved in view of the rather erratic long term earnings record of the company.

Brown Shoe Co.

Brown Shoe Company, a leading factor in its industry, usually waits until the end of the year to liberalize dividends by payment of extras. Evidence of improved demand and operating conditions, however, led the management to lift last year's payment in the December quarter to 40 cents from 30 cents a share, aside from declaring an 80 cents year-end extra. Recently the quarterly payment was again raised to 50 cents a share (although no definite rate is employed by this company), clearly a reflection of strong management confidence in sales and earnings potentials in the current year.

In support of this surmise, one might cite that volume in the January quarter rose about 8% from that a year before, with probable benefit to earnings that have not yet appeared. Brown Shoe has an enviable record of earnings and dividend stability, and its share holders have received payments regularly since 1923. From 35 factories, an annual output of more than 19 million pairs of shoes is distributed through 18,000 dealers, and aggressive promotional activities have strongly entrenched the company's Buster Brown shoes and other brand names in popular favor. On the whole, it seems pretty sure that the increased dividends will continue under current satisfactory market conditions, although a probable year-end extra might be somewhat adjusted as an offset.

A recent advance in the quarterly dividend rate of Hershey Chocolate Corporation shares to 50 cents a share from 31½ cents appears fully justified in view of earnings of \$1.83 per share in the March quarter alone. In this case, as with Brown Shoe Company, payment of year-end extras rather than advanced quarterly rates have been the rule. Current demand for the company's products is holding up well, and with no signs of near term diminution.

In 1949, stabilization of sharply lower cocoa prices eliminated former heavy inventory markdowns, and operating margins widened despite a decline in volume induced by lower prices for finished products. The company's trade position is firmly established and sales traditionally enjoy a good measure of stability. Although the first quarter earnings were at an annual rate of about \$7.30 per share, this was by no means abnormal, as in many past years they have been equally satisfactory or even better in some years. Hence chances are strong that the improved quarterly rate may continue indefinitely, bolstered by occasional extras.

New Economic Role of Consumer Durables

(*Continued from page* 251)

is not only the residue of deferred demand which still exists, and relatively high current demand, but also the preference for financial liquidity of a good many consumers. The prospect of lower prices can be an important inducement to demand postponement, and vice versa. But perhaps more important may be any inclination toward liquidity preference, or the very need in this direction.

As to the former, there are strong suggestions of a compensatory relationship between personal savings and durable goods expenditures. As to the latter, consumer durable goods buying, since much of it is done on credit, has certain self-curtailing aspects in the shorter run at least, not only because of temporary satisfaction of demand but because of reduced ability or willingness to buy. This is something not even the Government can counteract. No amount of compensatory Government spending, unless it *increases* individual consumer in-

come rather than merely sustains it, as is usually the case, can broaden consumer durable markets once they are in a declining phase because of prior boom and widespread satisfaction of demand.

One remedy is for manufacturers to introduce improvements and slash prices wherever possible with the dual objective of maintaining current demand and broadening the total market. This is exactly what happened last year in the appliance field; it will happen elsewhere as soon as necessity dictates such action. Easy payment plans have been, and still are, important in pushing consumer sales—but not forever. Terms can hardly be made still easier, and extensive credit buying has already weakened the finances of many consumers pretty far ahead. Hence sooner or later, the harder road of making lower priced models must be taken to maintain high level activity.

What keeps stimulating the current high volume of consumer durable goods sales is not only maintenance of high consumer incomes, always a basic factor, and easy credit—no less important—but high employment and the existence of large liquid assets in the hands of individuals. In addition the building boom, and the way it's being financed, is of considerable significance.

Not only can low-priced houses now be bought with a smaller down-payment than, for instance, automobiles, but they are also sold with a complete "package" of major household appliances. This not only lifts current sales, but in the long run should make for much larger replacement markets. Additionally, the great number of new houses now being put up require substantial amounts of house furnishings of every type. Both of these factors have been instrumental in raising consumer outlays for durable goods in recent months, apart from automobile purchases which contributed materially to the increase.

Despite the fact that even the best customers for durable consumer goods will be forced out of the market from time to time, either because of temporary satisfaction of demand or because of accumulated commitments against future income, markets in the future — though subject to fluctuations — should be permanently broader. In addition, there is a reasonable prospect for stabilization of durable goods activity at a somewhat lower level rather than an abrupt and sharp decline once the bloom is off the postwar boom.

Our 150-million population — with the bulk of the labor force employed at high wages—enjoys a higher standard of living than ever before, a standard that finds chief expression in wider demand and possession of consumer durables of every sort. Not only will current demand be higher than before, but the same applies also to replacement markets—an important consideration. And existing market potentials are stimulated by various factors.

Just as growing rural electrification will continue to stimulate demand for electrical appliances in rural areas, so will the spreading network of TV-stations augment demand for video receivers in areas heretofore not served by telecasting stations. Similarly, the greater number of autos on the road, and their greater use, should backstop automobile production even after full return of a buyers'

market and complete satisfaction of deferred demand. Repercussions of the housing boom on durable goods demands of every type will be incisive and long-lasting, as already pointed out. And new items such as home air conditioners are only now beginning to be more widely appreciated, with enormous future potentialities.

In short, volume potentials of manufacturers of consumer durables are likely to remain promising, viewed from any angle. Profit potentials on the other hand depend not only on volume but will be determined by competitive influences as well—and competition is bound to be keen, favoring the strong and the efficient.

The consumer durable goods field embraces an enormously important segment of our economy, ranging from houses and automobiles to radios, TV sets, electrical appliances, furniture and all kinds of home furnishings. Competition is always keen within these various lines, but often it is just as keen, if not even sharper, between some of these lines, and also with soft goods lines such as apparel, shoes, etc.

Consumer Preferences

Thus fluctuations in consumer preferences must also be considered. Right now they greatly favor most consumer durables, not a strange phenomenon at all in times of prosperity. It is in such times when consumer durables do best, when sales and profits assume somewhat of an "explosive" character only to subside to more normal levels as demand satisfaction progresses or the business cycle changes. But as already stated, any reverse trend henceforth should halt at higher levels than in the past, and this in turn should prove a stabilizing factor elsewhere.

In the appended table we have listed a number of consumer durable goods manufacturers, most of whom at present benefit considerably from boom conditions in their lines. The list is far from complete, for obvious reasons in view of the wide range of manufactures involved, nor do they necessarily all represent recommendations on our part. The statistics show the impact on sales and earnings of last year's recession, and recovery trends indicated by more recent results. In favorable position appear such concerns as General Electric and Westinghouse Electric, Philco and Zenith Radio, Armstrong Cork, Bigelow Sanford, McGraw Electric and Simmons — to mention some of the more outstanding situations.

The Utility Operating Companies — Looking to 1951

(*Continued from page* 257)

are connected up with the new pipelines, but this will not be a vital factor in their fuel bills.

For the great majority of companies which generate steam by burning coal, the modern new generators are very important from an earnings standpoint. Back in 1921, it took 2.7 pounds of coal (or equivalent fuel) to produce the average KWH. A decade later, through the installation of new and more efficient generators, as well as the inter-connection of power companies (which permitted 24-hour use of the best equipment in many cases), this dropped to 1.52 pounds. Progress in the next decade was comparatively slow, because the industry was "coasting," with very little new generating capacity added; and this condition continued through the war years.

In 1948 the figure still stood at 1.30 pounds, but in 1949 a new down-trend got under way, only 1.23 pounds being consumed in that year on the average, as latest-model hydrogen-cooled generators began to enter the picture. Heavy construction will continue through 1951, and some companies are now planning for extensions of their programs a year or two further. For example, Consolidated Edison recently announced that it hoped to build the largest steam generating plant in the world, with the first unit going on the line in 1953.

Further Economy Potential

Since the largest, most modern generators require only about three-quarters of a pound of coal to create a KWH, it is obvious that with these generators replacing obsolete equipment which may burn 1½ pounds or more, there are still startling economies obtainable in the fuel department. Moreover, these new generators require only a skeleton staff of employees to operate them as

compared with the old machinery. Hence with the use of new billing machinery and other devices to reduce administrative costs, the number of employees remains pretty constant and the wage scale is affected only by the annual increases exacted by the unions.

Percentage Gain in 1949 Earnings (over 1948) of Selected Companies

	%
New England Electric System	33%
Central Maine Power	34
Pub. Ser. of New Hampshire	35
Philadelphia Electric	22
Niagara Mohawk Power	22
Consolidated Gas of Baltimore	25
Pennsylvania Power & Light	20
Long Island Lighting	30
Delaware Power & Light	25
Detroit Edison	27
Commonwealth Edison	21
Cleveland Electric	22
Cincinnati Gas & Electric	21
Dayton Power & Light	27
Toledo Edison	36
Northern States Power	32
Minnesota Power & Light	36
Kansas Gas & Electric	51
Southern Company	47
Virginia Electric & Power	46
Florida Power & Light	22
So. Carolina Elec. & Gas	40
Houston Light & Power	24
Gulf States Utilities	22
So. California Edison	117
San Diego Gas & Electric	34
California Electric Power	28

Figures on electric utility earnings are available for the first quarter of 1950. On a composite basis, January net income showed a gain of 17.6% over last year, February 9.9% and March 9.6%. Residential sales of electricity continued to boom — February showed an increase of 11.2%, and this is the "big earner" for the utilities. Moreover, construction of new houses is now running about 50% over last year, which seems to insure continued gains as these houses are occupied. Sales of appliances, including television, remain at a high level; recent reports indicate that anticipated summer cutbacks in the television industry have been greatly exaggerated, and retail sales are being stimulated by price mark-downs.

From the standpoint of sales and fuel costs, therefore, the outlook seems good for the balance of 1950. Judging from recent settlements of union demands, labor costs seem likely to increase at about the same rate this year as last. The trend of maintenance costs may be down somewhat, since a larger proportion of the equipment in regular use will be relatively new. The introduction of natural gas in the East and elsewhere through the extension of the new pipelines should aid miscellaneous income. While fixed charges will continue to increase, the trend in net income should continue upward in 1950 and beyond, though net gains may be somewhat less than in 1949.

Last year, the utility market was handicapped by a continued flow of "new money" stock offerings and subscription rights, plus the sales and distributions made by the holding companies under their dissolution programs. This program is continuing in 1950, although throw-offs by the holding company are now slower, since only a few large companies remain to be broken up. One large holding company sale is being successfully absorbed with the offering of Toledo Edison common stock by Cities Service through rights to its own stockholders.

Favorable Demand Factors

A favorable factor will be the initiation on July 1 of the new rules governing the investment of legal trust funds in New York State, which will permit 35% of these funds to be placed in common stocks — the only restriction being that they must be listed (with the exception of bank and insurance stocks). It is reported that some trusts have already been lightening up on second-grade rail bonds and accumulating cash, in preparation for the purchase of high-grade common stocks after July 1, and it may naturally be assumed that this will include a good proportion of utility shares.

These stocks qualify on most investment grounds — many of them have long dividend records, running back nearly one hundred years in one or two cases; earnings are far steadier than those of most industrial companies; because of the fact that only a small proportion of profits come from industrial business, they are almost depression - proof; and they have no inventory or credit problems. Being regulated mo-

nopolies, their principal problems are Government agencies, state or federal. Average yields, even for high calibre issues, are double or triple those obtainable from high grade bonds.

In addition to the purchases by trust funds, the new pension funds which are growing rapidly as a result of labor union pressure, are largely free to invest in equities and a demand for utility stocks from this source is a supporting market factor. Moreover the open-end trusts, which continue to grow rapidly, as well as the British and Scotch investment trusts (since adverse regulations were lifted some time ago), have been heavy buyers of utility stocks.

Taking all these factors into account, therefore, the outlook for the power and light stocks remains favorable. Further moderate gains in revenues are indicated and some dividend increases are possible. Most stocks are attractive for income, as yields tabulated in our comprehensive statistical survey indicate.

Comparative Analysis of the Two Great Mail Order Companies

(*Continued from page* 265)

On the other hand, Ward's sales were scarcely more than two and a half times working capital. Whereas Sears has improved its position in this respect in the last ten years, Ward has failed to keep pace. Ten years ago, the latter's working capital was 33 percent of sales.

Up to this point comparisons appear to have favored the Sears organization. Ward's strong points should not be overlooked. Moreover, as mentioned earlier, it is not so much the intent of this discussion to draw inferences, as to present both strong and weak aspects so that the reader may place emphasis where he wishes. For another thing, it seems well to point out that both companies have fine records of profitable operations in a basic industry. Sight should not be lost of the fact that merchandising stocks — especially those representing large, efficient and adequately financed companies — deserve consideration in well-rounded portfolios. Both Sears and Ward have capably managed mail-order divisions, which probably account for 35 to 40 percent of sales, and strategically located retail stores serving urban areas.

Montgomery Ward, under Mr. Avery's direction, has moved slowly since the war in enlarging its chain and in expanding plant facilities. Management's argument has been that costs have been excessively inflated during the war and that precedent suggests that "what goes up must come down." Ward's policy has been based on the expectation that commodity prices may fall and that both plant and inventories may be replaced at some future time on more advantageous terms. In anticipation of such a deflation — such as has followed previous wars — Ward has set up a $26 million "reserve for possible future inventory price decline." This means that funds equivalent to about $4 a share have been set aside as a cushion against a possible collapse in prices.

Ward is well situated, therefore, to undertake expansion if management should decide conditions were appropriate, whereas it may be argued that Sears would need to raise additional working capital to undertake an extensive expansion. This is not to suggest that either company has in view any such program at the moment; it merely points out the advantage Ward would enjoy so far as current finances are concerned.

Sears generally is believed to have enjoyed an advantage immediately after the end of the war in having a relatively larger proportion of goods in so-called "heavy" lines carrying wider profit margins, but Ward has enlarged volume in appliances, farm equipment, etc., until it generally is supposed that "hard goods" now may account for from 60 to 70 percent of sales for both companies. Installment business represents about 25 percent of sales in the case of Ward and probably 30 percent of Sears' shipments. The latter finances with its own funds a portion of its part-payment sales and thereby obtains larger profits. Sears manufactures directly and indirectly a larger proportion of its merchandise and owns an insurance subsidiary which contributes handsome profits. In other words, it gains a greater degree of diversification through these related activities than Ward.

Under less prosperous conditions than prevailing today, it might be argued that Sears' setup would involve greater risks and contribute to greater rigidity in operating costs. Presumably, Ward would be better prepared, by virtue of greater flexibility in retailing, to put economies into effect. These are minor problems under ordinary circumstances, but in times of emergencies they can become exceptionally important.

Whether Sears or Ward is "the better buy" from the investor's viewpoint depends on a number of unpredictable factors — chief of which is the question as to whether the economy is to experience a traditional postwar deflation. There would be little argument if one knew the answer to that unknown quantity.

Ward shares are relatively less "exploited" than are those of Sears and logically might prove more suitable for defensive pur-

poses. Whether or not one should place greater stress on defensive stocks at this stage than on the other type is a question which only future developments can definitely answer. It seems fair to observe, however, that with yields approximating 5 per cent, both stocks have merit for investment purposes, considering the promising outlook for a high rate of national income — and therefore trade — in months ahead.

How the Government Plans to Perpetuate the Boom

(*Continued from page* 246)

inflation is fostered, there is danger that the worthwhileness of savings is discouraged, that the practice of saving as a foundation stone of the national economy is becoming increasingly undermined.

While one can understand Washington's desire to perpetuate the boom, one must also recognize its political overtones. Above all, one must come to the conclusion that the basis of prosperity could be better strengthened if the Administration could be induced to stop pouring billions of tax money or deficit funds into a complex network of lending and investing organizations which are granted powers and privileges denied to private enterprise. If not, the new pump priming may eventually prove highly dangerous. Prolific lending will inevitably be followed either by a painful period of repayment, or by huge losses which must be made up by higher taxes or covered by new deficits. That way, while prolonging the boom for a while, it will also assure the day of bust.

Meanwhile there are other pump priming devices available. Cold war demands, if fully exploited, can be almost limitless, particularly if defense emphasis shifts increasingly on "hard goods," stockpiling, etc. Moreover, the spending implications of Mr. Acheson's European trip can only be vaguely guessed though they may well outshine the Marshall Plan. The probability is that defense spending alone, plus European aid, precludes any significant reduction in expenditures and rather points to increases.

Together with other types of pump priming as outlined in the foregoing, this may justify the Administration's faith in a continuance of "good times." For with so many stimulants at work, no matter how unsound some of them may be, any *marked* downturn in the economy is difficult to envisage.

Utility Holding Companies

(*Continued from page* 259)

pany, after distributing a number of its subsidiary stocks, now proposes to merge with its remaining big subsidiary, Union Electric of Missouri (a smaller subsidiary, Missouri Power & Light, is being acquired by Union Electric). It had previously been anticipated that miscellaneous assets such as holdings in North American Utility Securities Corporation, the building at 61 Broadway, New York, etc., together with cash on hand, would be distributed to North American stockholders. Under the proposed plan, however, these will become the property of Union Electric in the merger and will doubtless be converted into equity funds to be used in its huge construction program — projected at several hundred million dollars over the next 10-15 years. North American is now paying cash dividends at the rate of $1.20 a year, which is the indicated near-term rate for Union Electric after the merger is effected.

Middle West, which has been gradually liquidating for years, is about to make a cash distribution of $2.50. This step has been approved by the SEC, and Federal Court approval is anticipated in the near future. The transfer books will then be closed and the remaining assets may ultimately liquidate out at around 50-55¢, it is estimated. The final small payment is to be made around the end of 1951, after which this once huge Insull utility empire will pass out of the picture..

Standard Gas & Electric remains one of the largest of the holding companies still in gradual process of dissolution, which may require another year or so to work out. There are four holding companies in the system—Standard Power & Light, Standard Gas & Electric, Philadelphia Company and Pittsburgh Railways. These have to be "unscrambled" in reverse order. Pittsburgh Railways, a big transit company serving Pittsburgh, has been in bank-

ruptcy for many years. It has an immensely complicated corporate and capital set-up, and several elaborate reorganization plans have been presented to the Federal courts in recent years, and amended and revised. A year or two ago, a simplified plan was proposed, giving Philadelphia Company 51% of the new common stock, and the cash and minority stock to the long list of underlyers and bondholders. This has now been approved by the SEC and a Federal Court, and its consummation over the near future is expected.

Philadelphia Company has also recently disposed of all its natural gas subsidiaries, which had been merged into Equitable Gas, for some $63 million (including retained debentures). Philadelphia has retired its funded debt and has presented a plan to the SEC to retire the non-callable preferred stocks. Eventually it will probably own Duquesne Light as its principal remaining asset, against its own common stock (95% held by Standard Gas), thus permitting its dissolution or merger with Duquesne. The way will then be cleared for an allocation plan of Standard's holdings to its four classes of stock; and eventually Standard Power & Light's plan will in turn be forthcoming.

In addition to the above systems, the integration programs for three holding companies, which will not be dissolved, are now far advanced—Long Island Lighting, General Public Utilities and United Corporation. There are only a few remaining holding companies whose programs have to be cleared up.

Electric Bond & Share will not be dissolved but it may have to disburse to stockholders its holdings of United Gas—equivalent to roughly half its current market price—the issue is now before the SEC. Its big sub-holding company, American & Foreign Power, must be recapitalized and a new plan is expected shortly.

Smaller systems which are in various stages of progress toward dissolution or recapitalization are Central Public Utility, Central States Electric, Eastern Utilities Associates, Federal Water & Gas, International Hydro-Electric and New England Public Service (and its small affiliated holding company, Northern New England). It may be some years, however, before final details for all these companies have been forced out, and the SEC can close its books on the holding company dissolution-integration program.

Answers to Inquiries

(*Continued from page* 280)

sponding period of 1949, and net income was $1,431,476 or $1.09 per share for the first three months of 1950, compared with $1,390,505 or $1.05 per share for the corresponding period of 1949.

Dividends in 1949 totaled $1.75 per share and 90c has been paid thus far in the current year.

For Profit and Income

(*Continued from page* 271)

they were in the first half of 1949. At this distance, it seems reasonably probable that most department-store concerns will earn at least moderately more for 1950 than was shown last year. The stocks are somewhat behind the market. Few in retail trade will match previous peak postwar earnings—generally seen in 1948—this year. A probable exception is the well-managed Federated Department Stores. Earnings were up last year, contrary to general experience in trade, to $5.45, a new peak, from $5.33 a share in 1948. The dividend rate is $2.50, yielding at 6.4% at present market price of 38½. Another outstanding concern is Hecht Company, operating 9 stores but getting about half of its total volume from one store in Washington, D. C., the depression-proof city with the thriving bureaucracy. Net last year set a new peak at $4.94 a share, against $4.67 in 1948. The dividend is $1.60, yielding about 5.1% and possibly subject to increase. Or these two, Federated is much the larger, with sales of its stores running around $350 million a year, against around $83 million for Hecht.

Defense

A certainty of the cold war is that defense outlays for air power, and for certain naval purposes, will be stepped up. Procurement policy is to spread the orders as far as possible. However, the two favored makers of bombers will get much the largest shares. They are Boeing and Consolidated-Vultee. Their earnings are likely to rise considerably this year. Indeed, it seems bound to be the best year in some time for virtually all makers of military aircraft. On the naval end, Electric Boat is in a good position. It should be emphasized that any stock vitally affected by military orders is inherently speculative. Aircraft stocks sold much above present levels during the late phases of the war; and might be favored should speculative fancy turn even moderately to "war stocks." A good compromise choice is Bendix Aviation, with its fingers in many defense "pies," yet far from mainly dependent on them. Earnings in the March 31 quarter were at an annual rate of about $6.80 a share, against $5.24 for the fiscal year ended last September 30. Dividends for the last several years have been $2.50 annually, including extras, yielding about 5.5% at present price of 45.

Paper

This is going to be a good year for the paper industry, which is why a number of these stocks recently started to "go to town." Two good companies, both characterized by profitable specialization, able management, and long-term growth trends, are Kimberley-Clark and Sutherland Paper. Earnings of the former have risen each year since the war, and will do so again this year; probably to the vicinity of $6.00 a share, against $5.29 last year. Dividends of $1.65 last year are subject to increase. The stock is around 37, yielding nearly 4.5%. Around 40, with a $2.50 dividend (with extras) Sutherland Paper yields over 6.2%. The 1950 net may exceed $5.00 a share, versus $4.62 for 1949.

As I See It!

(*Continued from page* 241)

the UN, it would be no serious moral or political loss. That organization without the communists will function more smoothly and efficiently than at present, perpetually stymied as it is by deadlocks, vetoes and boycotts. Appeasing Russia would make matters infinitely worse.

5 Dynamic Securities
—for Capital Building
—for Rising Dividends
Average Price 37 . . . Yield 7%

—For Purchase NOW . . .

A FEW weeks ago we accurately gauged the changing market tempo recommending "5 Developing Blue Chip Calibre Common Stocks" for high income and appreciation.

Four of these stocks have already advanced several points — gaining more than the market. One declared an extra dividend . . . another raised its regular dividend. *All five are still outstanding "buys."*

New Recommendations for Next Phase of Market Advance

And Now . . . we have just completed our selection of another group of special opportunities . . . "5 Dynamic Securities for Capital Gains with Rising Dividend Prospects" . . . average price only 37 . . . average dividend over 7%.

—These undervalued situations have a long way to go in dicounting 1950 potentials. They have been selected for dynamic profits as the market advance broadens out— *special issues to have exceptional velocity in the next recovery move.*

Now Being Uncovered . . . Low-Priced Stocks for Large Gains — As Business Base Broadens

These will be special low-priced, dividend-paying situations in a position to do considerably better than the averages as the market extends its rise. Our selections will be from progressive companies which are coming to the fore and gaining in stature as their industries forge ahead. Realistically adjusted split-up shares . . . temporarily available in the low-priced brackets . . . will also be recommended.

Three Diversified Programs Complete in One Service

To meet your capital and objectives — The Investment and Business Forecast brings you three diversified programs . . . each comprising expertly selected common stocks kept under our continuous supervision.

PROGRAM ONE . . . *Stressing Security of Principal . . . Assured Income . . . with Appreciation*

PROGRAM TWO . . . *Dynamic Securities for Capital Building with Higher Dividend Potentials*

PROGRAM THREE . . . *Low-Priced Opportunities for Large Percentage Profits*

Enroll Now — to Capitalize on Our Current Recommendations

Immediately on receipt of your Forecast enrollment, we will send you — by first class-special delivery or air mail — our latest eight-page weekly bulletin giving you our special selections of:

5 Developing Blue Chip Calibre Common Stocks
5 Dynamic Securities for Capital Building
—Both of the Groups Highlighted Above

You will also be sure to receive our continuing recommendations for income and profit . . . including our special Low-Priced situations now being uncovered.

You are welcome to send with your enrollment a list of your present holdings for our appraisals and advice on which of your stocks are amply priced—which are moderately priced—which to hold—which to let go of.

By mailing the coupon below, you can benefit fully from Forecast service in this bull market.

Mail Coupon Today!

Special Offer

6 MONTHS' SERVICE **$60**

12 MONTHS' SERVICE **$100**

Complete service will start at once but date from July 1. Subscriptions to The Forecast are deductible for tax purposes.

FREE SERVICE TO JULY 1, 1950

6-3

THE INVESTMENT AND BUSINESS FORECAST

of The Magazine of Wall Street, 90 Broad Street, New York 4, N. Y.

I enclose ☐ $60 for 6 months' subscription; ☐ $100 for a year's subscription.

(*Service to start at once but date from July* 1, 1950)

SPECIAL MAIL SERVICE ON BULLETINS

Air Mail: ☐ $1.00 six months; ☐ $2.00 one year in U. S. and Canada. *Special Delivery*: ☐ $4.00 six months; ☐ $8.00 one year.

☐ Telegraph me collect in anticipation of important market turning points . . . when to buy and when to sell . . . when to expand or contract my position.

Name ____________________

Address ____________________

City ____________________ State ____________

Your subscription shall not be assigned at any time without your consent.

List up to 12 of your securities for our initial analytical and advisory report.

Marked Earnings Changes in First Quarter Reports

(*Continued from page* 249)

erated on a short work week, but in the process learned the advantage of using improved equipment such as Joy Manufacturing Company produces, especially such a cost-savings device as the Continuous Miner. In the second and third quarters of 1949, conditions in the coal industry brought a marked decline in sales and earnings by Joy, but since then, despite the coal strike, an improvement has set in.

Sales of $9.8 million in the March quarter compared very unfavorably with $14.7 million the year before and the same was true of net earnings of 66 cents per share in contrast to $1.46. It should be realized that in the September quarter of last year, though, the company operated slightly in the red. Now that the coal strike has been settled and the coal mining concerns are burdened with heavy operating costs, the outlook for Joy Manufacturing Company again has a bright tinge and at the end of the first quarter, unfilled orders were 15% higher than at the start of the year. Chances are that the slump in earnings will prove temporary.

Standard Oil (Ohio)

Typical of first quarter reports by most leading units in the oil industry, that of the Standard Oil Company (Ohio) revealed considerably lower earnings than in early 1949. The company's physical volume gained about 6% over last year, while total income from sales and other revenues advanced about 2% to $63.5 million. Pre-tax margins, however, were pinched by a rise of 4% in operating costs and reduced prices for numerous important products. In consequence, net earnings for the quarter declined to 71 cents per share from $1.03 the year before. Increased demand for kerosine, heating oil and heavy fuel oil in February and March was stimulated by the coal strike and by cold weather, while sales of "Sohio" brand motor gasoline rose about 5% in first quarter comparisons.

Over-abundant supplies of gasoline on an industry-wide basis, on the other hand, twice exerted pressure on the price early this year, reducing it to the lowest level since 1947. A better than expected demand from consumers in the current quarter has now reversed the downtrend in gasoline prices throughout the country, so that on May 1, "Sohio" brand gasoline was retailed at ½ cent a gallon higher. Now that a record number of new powered vehicles are pouring out of the factories and the peak season for driving is at hand, this company's sales of motor fuels and lubricants seem certain to expand, particularly in view of the latest gasoline price increase just announced. It is likely, therefore, that margins will widen somewhat and net earnings will reflect improved operating conditions.

Columbian Carbon Co.

The quarterly report of Columbian Carbon Company is especially interesting because of certain abnormal factors that might create misconceptions as to earnings. Reported first quarter earnings were 90 cents as compared with $1.60 last year. From normal operations, however, Columbian Carbon earned only 72 cents a share in the 1949 first quarter, or 18 cents less than in the same 1950 period; but a net profit of $1.4 million from the sale of an investment in the Mississippi River Fuel Company created a non-recurring net income equal to 88 cents per share, thus making a total of $1.60. A casual acceptance of the statistical evidence, therefore, would be very misleading. Actually, the sales and earnings record of this company has been exceptionally stable for many years past and no real variation occurred in the recent quarter, except as to moderate improvement. We cite this case as highlighting the need for caution in accepting earnings at their face value.

Clark Equipment Co.

Clark Equipment Company, in common with a number of other specialists manufacturing industrial trucks, motor truck and farm tractor components, was still struggling to meet intensified competition in the first quarter. Sales of $14.8 million in this recent period were about 12% lower than the year before and on the reduced volume, pre-tax margins contracted to 6.9% from 12.2%, while net earnings of $1.16 per share compared with $2.38. As volume for all of last year declined 28% from 1948 and net earnings were 51% lower, the showing for the first quarter of 1950 does not appear very encouraging, though it might easily be followed by some improvement as the current year progresses.

Due to the high level of general industrial activity now prevailing, demand for trucks has risen, as is also the case with materials-handling trucks which this company produces on a large scale. The main thing to consider in appraising the potentials of Clark Equipment is its long and eminently successful record as to growth in sales and earnings, not to mention dividends. Aside from three years in the early 1930s, operations have been consistently profitable since 1917 when sales of $3.3 million contrasted with $53.7 million last year. The company has a very efficient management and a strong financial position. While 1950 earnings may not fully equal those of last year, they should not fall far behind and in due course become more satisfactory.

Which Stocks to Follow Blue Chips?

(*Continued from page* 243)

Name stocks into medium-grade issues and thence into more speculative issues. Certainly the biggest potentialities for capital gain are now in well-chosen secondary stocks — particularly stocks of companies which are "up and coming," but not yet widely known to typical investors. This is a selective research job, which will continue to be handled on other pages. We suggest that readers look for our recommendations as they are being made in this and future issues.

It is now apparent that 1950 business activity will exceed that of 1949 and almost equal 1948. Total profits will be above 1949. Total dividends will be up something like 10%, to a new all-time peak. With the outlook for Government spending what it is, we question the basis for more than fairly moderate fluctuation in the economy, even after peak automobile output and residential building activity have been passed. Maintain reasonably well-invested positions.

—Monday, May 29.